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MESSAGE OF THE PRESIDENT RECOMMENDING LEGISLATION ON ECONOMIC SECURITY

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

A RECOMMENDATION FOR LEGISLATION ON THE SUBJECT OF ECONOMIC SECURITY

JANUARY 17, 1935.—Referred to the Committee on Ways and Means and ordered to be printed

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MESSAGE FROM THE PRESIDENT

To the Congress of the United States:

In addressing you on June 8, 1934, I summarized the main objectives of our American program. Among these was, and is, the security of the men, women, and children of the Nation against certain hazards and vicissitudes of life. This purpose is an essential part of our task. In my annual message to you I promised to submit a definite program of action. This I do in the form of a report to me by a Committee on Economic Security, appointed by me for the purpose of surveying the field and of recommending the basis of legislation.

I am gratified with the work of this Committee and of those who have helped it; the Technical Board on Economic Security drawn from various departments of the Government, the Advisory Council on Economic Security, consisting of informed and public-spirited private citizens and a number of other advisory groups, including a committee on actuarial consultants, a medical advisory board, a dental advisory committee, a hospital advisory committee, a public-health advisory committee, a child-welfare committee and an advisory committee on employment relief. All of those who participated in this notable task of planning this major legislative proposal are ready and willing, at any time, to consult with and assist in any way the appropriate congressional committees and members, with respect to detailed aspects.

It is my best judgment that this legislation should be brought forward with a minimum of delay. Federal action is necessary to and conditioned upon the actions of States. Forty-four legislatures are meeting or will meet soon. In order that the necessary State action may be taken promptly it is important that the Federal Government proceed speedily.

The detailed report of the Committee sets forth a series of proposals that will appeal to the sound sense of the American people. It has not attempted the impossible nor has it failed to exercise sound caution and consideration of all of the factors concerned; the national credit, the rights and responsibilities of States, the capacity of industry to assume financial responsibilities and the fundamental necessity of proceeding in a manner that will merit the enthusiastic support of citizens of all sorts.

It is overwhelmingly important to avoid any danger of permanently discrediting the sound and necessary policy of Federal legislation for economic security by attempting to apply it on too ambitious a scale before actual experience has provided guidance for the permanently safe direction of such efforts. The place of such a fundamental in our future civilization is too precious to be jeopardized now by extravagant action. It is a sound idea—a sound ideal. Most of the other advanced countries of the world have already adopted it and their experience affords the knowledge that social insurance can be made a sound and workable project.

Three principles should be observed in legislation on this subject. In the first place, the system adopted, except for the money necessary to initiate it, should be self-sustaining in the sense that funds for the payment of insurance benefits should not come from the proceeds of general taxation. Second, excepting in old-age insurance, actual management should be left to the States subject to standards established by the Federal Government. Third, sound financial management of the funds and the reserves, and protection of the credit structure of the Nation should be assured by retaining Federal control over all funds through trustees in the Treasury of the United States.

At this time, I recommend the following types of legislation looking to economic security:

1. Unemployment compensation.
2. Old-age benefits, including compulsory and voluntary annuities.
3. Federal aid to dependent children through grants to States for the support of existing mother's pension systems and for services for the protection and care of homeless, neglected, dependent, and crippled children.
4. Additional Federal aid to State and local public-health agencies and the strengthening of the Federal Public Health Service. I am not at this time recommending the adoption of so-called "health insurance", although groups representing the medical profession are cooperating with the Federal Government in the further study of the subject and definite progress is being made.

With respect to unemployment compensation, I have concluded that the most practical proposal is the levy of a uniform Federal payroll tax, 90 percent of which should be allowed as an offset to employers contributing under a compulsory State unemployment compensation act. The purpose of this is to afford a requirement of a reasonably uniform character for all States cooperating with the Federal Government and to promote and encourage the passage of unemployment compensation laws in the States. The 10 percent not thus offset should be used to cover the costs of Federal and State administration of this broad system. Thus, States will largely administer unemployment compensation, assisted and guided by the Federal Government. An unemployment compensation system should be constructed in such a way as to afford every practicable aid and incentive toward the larger purpose of employment stabilization. This can be helped by the intelligent planning of both public and private employment. It also can be helped by correlating the system with public employment so that a person who has exhausted his benefits may be eligible for some form of public work as is recommended in this report. Moreover, in order to encourage the stabilization of private employment, Federal legislation should not foreclose the States from establishing means for inducing industries to afford an even greater stabilization of employment.

In the important field of security for our old people, it seems necessary to adopt three principles—first, noncontributory old-age pensions for those who are now too old to build up their own insurance; it is, of course, clear that for perhaps 30 years to come funds will have to be provided by the States and the Federal Government to meet these pensions. Second, compulsory contributory annuities which in time will establish a self-supporting system for those now young and for future generations. Third, voluntary contributory

annuities by which individual initiative can increase the annual amounts received in old age. It is proposed that the Federal Government assume one-half of the cost of the old-age pension plan, which ought ultimately to be supplanted by self-supporting annuity plans.

The amount necessary at this time for the initiation of unemployment compensation, old-age security, children's aid, and the promotion of public health, as outlined in the report of the Committee on Economic Security, is approximately $100,000,000.

The establishment of sound means toward a greater future economic security of the American people is dictated by a prudent consideration of the hazards involved in our national life. No one can guarantee this country against the dangers of future depressions but we can reduce these dangers: We can eliminate many of the factors that cause economic depressions, and we can provide the means of mitigating their results. This plan for economic security is at once a measure of prevention and a method of alleviation.

We pay now for the dreadful consequence of economic insecurity—and dearly. This plan presents a more equitable and infinitely less expensive means of meeting these costs. We cannot afford to neglect the plain duty before us. I strongly recommend action to attain the objectives sought in this report.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE, *January 17, 1935.*

LETTER OF SUBMITTAL

The PRESIDENT,
The White House, Washington, D. C.

DEAR MR. PRESIDENT:

In your message of June 8, 1934, to the Congress you directed attention to certain fundamental objectives in the great task of reconstruction; an indistinguishable and essential aspect of the immediate task of recovery. You stated, in language that we cannot improve upon:

> Our task of reconstruction does not require the creation of new and strange values. It is rather the finding of the way once more to known, but to some degree forgotten, ideals and values. If the means and details are in some instances new, the objectives are as permanent as human nature.
>
> Among our objectives I place the security of the men, women, and children of the Nation first.
>
> This security for the individual and for the family concerns itself primarily with three factors. People want decent homes to live in; they want to locate them where they can engage in productive work; and they want some safeguard against misfortunes which cannot be wholly eliminated in this man-made world of ours.

Subsequent to this message, you created, by Executive order, this Committee on Economic Security to make recommendations to you on the third of the aspects of security which you outlined—that of safeguards "against misfortunes which cannot be wholly eliminated in this man-made world of ours."

In the brief time that has intervened, we have sought to analyze the hazards against which special measures of security are necessary, and have tried to bring to bear upon them the world experience with measures designed as safeguards against these hazards. We have analyzed all proposed safeguards of this kind which have received serious consideration in this country. On the basis of all these considerations, we have tried to formulate a program which will represent at least a substantial beginning toward the realization of the objective you presented.

We have had in our employ a small staff which included some of the outstanding experts in this field. This staff has prepared many valuable studies giving the factual background, summarizing American and foreign experience, presenting actuarial calculations, and making detailed suggestions for legislation and administration.

We have also had the assistance of the Technical Board on Economic Security, provided for in your Executive order, and composed of 20 people in the Government service, who have special interest and knowledge in some or all aspects of the problem you directed us to study. The Technical Board, functioning as a group, through subcommittees, and as individuals, has aided the staff and the Committee during the entire investigation. Many of the members have devoted much time to this work and have made very important contributions. Plus these, many other people in the Government service have unstintingly aided the Committee with special problems on which their advice and assistance has been sought.

The Advisory Council on Economic Security, appointed by you and constituted of citizens outside of the Government service, chosen

from employers, employees, and the general public, has assisted the Committee in weighing the proposals developed by the staff and the Technical Board, and in arriving at a judgment as to their practicability. All members of the Council were people who have important private responsibilities, and many of them also other public duties, but they took time to come to Washington on four separate occasions for meetings extending over several days.

In addition to the Council, this Committee found it advisable to create seven other advisory groups: A committee of actuarial consultants, a medical advisory board, a dental advisory committee, a hospital advisory committee, a public health advisory committee, a child welfare committee, and an advisory committee on employment and relief. All of these committees have contributed suggestions which have been incorporated in this report. The medical advisory board, the dental advisory committee, and the hospital advisory committee are still continuing their consideration of health insurance, but joined with the public health advisory committee in endorsement of the program for extended public health services which we recommend.

Finally, many hundreds of citizens and organizations in all parts of the country have contributed ideas and suggestions. Three hundred interested citizens, representing practically every State, at their own expense, attended the National Conference on Economic Security, held in Washington on November 14, which was productive of many very good suggestions.

The responsibility for the recommendations we offer is our own. As was inevitable in view of the wide differences of opinion which prevail regarding the best methods of providing protection against the hazards leading to destitution and dependency, we could not accept all of the advice and suggestions offered, but it was distinctly helpful to have all points of view presented and considered.

To all who assisted us or offered suggestions, we are deeply grateful.

In this report we briefly sketch the need for additional safeguards against "the major hazards and vicissitudes of life." We also present recommendations for making a beginning in the development of safeguards against these hazards, and with this report submit drafts of bills to give effect to these recommendations. We realize that some of the measures we recommend are experimental and, like nearly all pioneering legislation, will, in course of time, have to be extended and modified. They represent, however, our best judgment as to the steps which ought to be taken immediately toward the realization of what you termed in your recent message to the Congress "the ambition of the individual to obtain for him and his a proper security, a reasonable leisure, and a decent living throughout life."

Respectfully submitted.

FRANCES E. PERKINS,
Secretary of Labor (Chairman).
H. MORGENTHAU, JR.,
Secretary of the Treasury.
HOMER CUMMINGS,
Attorney General.
H. A. WALLACE,
Secretary of Agriculture.
HARRY HOPKINS,
Federal Emergency Relief Administrator.

REPORT OF THE COMMITTEE ON ECONOMIC SECURITY

NEED FOR SECURITY

The need of the people of this country for "some safeguard against misfortunes which cannot be wholly eliminated in this man-made world of ours" is tragically apparent at this time, when 18,000,000 people, including children and aged are dependent upon emergency relief for their subsistence and approximately 10,000,000 workers have no employment other than relief work. Many millions more have lost their entire savings, and there has occurred a very great decrease in earnings. The ravages of probably the worst depression of all time have been accentuated by greater urbanization, with the consequent total dependence of a majority of our people on their earnings in industry.

As progress is made toward recovery, this insecurity will be lessened, but it is now apparent that even in the "normal times" of the prosperous twenties, a large part of our population had little security. From the best estimates which are obtainable, it appears that in the years 1922 to 1929 there was an average unemployment of 8 percent among our industrial workers. In the best year of this period, the number of the unemployed averaged somewhat less than 1,500,000.

Unemployment is but one of many misfortunes which often result in destitution. In the slack year of 1933, 14,500 persons were fatally injured in American industry and 55,000 sustained some permanent injury. Nonindustrial accidents exacted a much greater toll. On the average, 2.25 percent of all industrial workers are at all times incapacitated from work by reason of illness. Each year above one-eighth of all workers suffer one or more illnesses which disable them for a week, and the percentage of the families in which some member is seriously ill is much greater. In urban families of low income, above one-fifth each year have expenditures for medical and related care of above $100 and many have sickness bills of above one-fourth and even one-half of their entire family income. A relatively small but not insignificant number of workers are each year prematurely invalided, and 8 percent of all workers are physically handicapped. At least one-third of all our people, upon reaching old age, are dependent upon others for support. Less than 10 percent leave an estate upon death of sufficient size to be probated.

There is insecurity in every stage of life.

For the largest group, the people in middle years, who carry the burden of current production from which all must live, the hazards with which they are confronted threaten not only their own economic independence but the welfare of their dependents.

For those now old, insecurity is doubly tragic because they are beyond the productive period. Old age comes to everyone who does not die prematurely and is a misfortune only if there is insufficient

income to provide for the remaining years of life. With a rapidly increasing number and percentage of the aged, and the impairment and loss of savings, this country faces, in the next decades, an even greater old age security problem than that with which it is already confronted.

For those at the other end of the life cycle—the children—dependence is normal, and security is best provided through their families. That security is often lacking. Not only do the children under 16 constitute above 40 percent of all people now on relief, as compared to 28 percent in the entire population, but at all times there are several millions in need of special measures of protection. Some of these need individual attention to restore, as fully as may be, lives already impaired. More of them—those who have been deprived of a father's support—need only financial aid which will make it possible for their mothers to continue to give them normal family care.

Most of the hazards against which safeguards must be provided are similar in that they involve loss of earnings. When earnings cease, dependency is not far off for a large percentage of our people. In 1929, at the peak of the stock-market boom, the average per capita income of all salaried employees at work was only $1,475. Eighteen million gainfully employed persons, constituting 44 percent of all those gainfully occupied, exclusive of farmers, had annual earnings of less than $1,000; 28,000,000 or nearly 70 percent, earnings of less than $1,500. Many people lived in straitened circumstances at the height of prosperity; a considerable number lived in chronic want. Throughout the twenties, the number of people dependent upon private and public charity steadily increased.

With the depression, the scant margin of safety of many others has disappeared. The average earnings of all wage earners at work dropped from $1,475 in 1929 to $1,199 in 1932. Since then there has been considerable recovery but even for many who are fully employed, there is no margin for contingencies.

The one almost all-embracing measure of security is an assured income. A program of economic security, as we vision it, must have as its primary aim the assurance of an adequate income to each human being in childhood, youth, middle age, or old age—in sickness or in health. It must provide safeguards against all of the hazards leading to destitution and dependency.

A piecemeal approach is dictated by practical considerations, but the broad objectives should never be forgotten. Whatever measures are deemed immediately expedient should be so designed that they can be embodied in the complete program which we must have ere long.

To delay until it is opportune to set up a complete program will probably mean holding up action until it is too late to act. A substantial beginning should be made now in the development of the safeguards which are so manifestly needed for individual security. As stated in the message of June 8, these represent not "a change in values" but rather "a return to values lost in the course of our economic development and expansion." "The road to these values is the way to progress." We will not "rest content until we have done our utmost to move forward on that road."

SUMMARY OF MAJOR RECOMMENDATIONS

In this report we discuss briefly all aspects of the problem of economic security for the individual. On many phases our studies enable us only to call attention to the importance of not neglecting these aspects of economic security and to give endorsement to measures and policies which have been or should be worked out in detail by other agencies of the Government.

Apart from these phases of a complete program for economic security with which we deal only sketchily, we present the following major recommendations:

EMPLOYMENT ASSURANCE

Since most people must live by work, the first objective in a program of economic security must be maximum employment. As the major contribution of the Federal Government in providing a safeguard against unemployment we suggest employment assurance—the stimulation of private employment and the provision of public employment for those able-bodied workers whom industry cannot employ at a given time. Public-works programs are most necessary in periods of severe depression, but may be needed in normal times as well to help meet the problems of stranded communities and overmanned or declining industries. To avoid the evils of hastily planned emergency work, public employment should be planned in advance and coordinated with the construction and developmental policies of the Government and with the State and local public-works projects.

We regard work as preferable to other forms of relief where possible. While we favor unemployment compensation in cash, we believe that it should be provided for limited periods on a contractual basis and without governmental subsidies. Public funds should be devoted to providing work, rather than to introduce a relief element into what should be strictly an insurance system.

UNEMPLOYMENT COMPENSATION

Unemployment compensation, as we conceive it, is a front line of defense, especially valuable for those who are ordinarily steadily employed, but very beneficial also in maintaining purchasing power. While it will not directly benefit those now unemployed until they are reabsorbed in industry, it should be instituted at the earliest possible date to increase the security of all who are employed.

We believe that the States should administer unemployment compensation, assisted and guided by the Federal Government. We recommend as essential the imposition of a uniform pay-roll tax against which credits shall be allowed to industries in States that shall have passed unemployment-compensation laws. Through such a uniform pay-roll tax it will be possible to remove the unfair competitive advantage that employers operating in States which have failed to adopt a compensation system enjoy over employers operating in States which give such protection to their wage earners.

We believe also that it is essential that the Federal Government assume responsibility for safeguarding, investing, and liquidating all reserve funds, in order that these reserves may be utilized to promote

economic stability and to avoid dangers inherent in their uncontrolled investment and liquidation. We believe, further, that the Federal act should require high administrative standards, but should leave wide latitude to the States in other respects, as we deem varied experience necessary with particular provisions of unemployment compensation laws in order to conclude what types are most practicable in this country.

OLD-AGE SECURITY

To meet the problem of security for the aged we suggest as complementary measures, noncontributory old-age pensions, compulsory contributory annuities, and voluntary contributory annuities, all to be applicable on retirement at age 65 or over.

Only noncontributory old-age pensions will meet the situation of those who are now old and have no means of support. Laws for the payment of old-age pensions on a needs basis are in force in more than half of all States and should be enacted everywhere. Because most of the dependent aged are now on relief lists and derive their support principally from the Federal Government and many of the States cannot assume the financial burden of pensions unaided, we recommend that the Federal Government pay one-half the cost of old-age pensions, but not more than $15 per month for any individual.

The satisfactory way of providing for the old age of those now young is a contributory system of old-age annuities. This will enable younger workers, with matching contributions from their employers, to build up a more adequate old-age protection than it is possible to achieve with noncontributory pensions based upon a means test. To launch such a system we deem it necessary that workers who are now middle-aged or older and who, therefore, cannot in the few remaining years of their industrial life accumulate a substantial reserve be, nevertheless, paid reasonably adequate annuities upon retirement. These Government contributions to augment earned annuities may either take the form of assistance under old-age pension laws on a more liberal basis than in the case of persons who have made no contributions or a Government subsidy to the contributory annuity system itself. A portion of these particular annuities will come out of Federal funds, but because receipts from contributions will in the early years greatly exceed annuity payments, it will not be necessary to have actual Government contribution until after the system has been in operation for 30 years. The combined contributory rate we recommend is 1 percent of pay roll to be divided equally between employers and employees, which is to be increased by 1 percent each 5 years, until the maximum of 5 percent is reached in 20 years.

There still remains, unprotected by either of the two above plans, professional and self-employed groups, many of whom face dependency in old age. Partially to meet their problem, we suggest the establishment of a voluntary Government annuity system, designed particularly for people of small incomes.

SECURITY FOR CHILDREN

A large group of the children at present maintained by relief will not be aided by employment or unemployment compensation. There are the fatherless and other "young" families without a breadwinner.

To meet the problems of the children in these families no less than 45 States have enacted children's aid laws, generally called "mothers' pensions laws". However, due to the present financial difficulty in which many States find themselves, far more of such children are on the relief lists than are in receipt of children's aid benefits. We are strongly of the opinion that these families should be differentiated from the permanent dependents and unemployables, and we believe that the children's aid plan is the method which will best care for their needs. We recommend Federal grants-in-aid on the basis of one-half the State and local expenditures for this purpose (one-third the entire cost).

We recommend also that the Federal Government give assistance to States in providing local services for the protection and care of homeless, neglected, and delinquent children and for child and maternal health services especially in rural areas. Special aid should be given toward meeting a part of the expenditures for transportation, hospitalization, and convalescent care of crippled and handicapped children, in order that those very necessary services may be extended for a large group of children whose only handicaps are physical.

RISKS ARISING OUT OF ILL HEALTH

As a first measure for meeting the very serious problem of sickness in families with low income we recommend a Nation-wide preventive public-health program. It should be largely financed by State and local governments and administered by State and local health departments, the Federal Government to contribute financial and technical aid. The program contemplates (1) grants in aid to be allocated through State departments of health to local areas unable to finance public-health programs from State and local resources, (2) direct aid to States in the development of State health services and the training of personnel for State and local health work, and (3) additional personnel in the United States Public Health Service to investigate health problems of interstate or national concern.

The second major step we believe to be the application of the principles of insurance to this problem. We are not prepared at this time to make recommendations for a system of health insurance. We have enlisted the cooperation of advisory groups representing the medical and dental professions and hospital management in the development of a plan for health insurance which will be beneficial alike to the public and the professions concerned. We have asked these groups to complete their work by March 1, 1935, and expect to make a further report on this subject at that time or shortly thereafter. Elsewhere in our report we state principles on which our study of health insurance is proceeding, which indicate clearly that we contemplate no action that will not be quite as much in the interests of the members of the professions concerned as of the families with low incomes.

RESIDUAL RELIEF

The measures we suggest all seek to segregate clearly distinguishable large groups among those now on relief or on the verge of relief and to apply such differentiated treatment to each group as will give it the greatest practical degree of economic security. We believe that if these measures are adopted, the residual-relief problem will have

diminished to a point where it will be possible to return primary responsibility for the care of people who cannot work to the State and local governments.

To prevent such a step from resulting in less humane and less intelligent treatment of unfortunate fellow citizens, we strongly recommend that the States substitute for their ancient, out-moded poor laws modernized public-assistance laws, and replace their traditional poor-law administrations by unified and efficient State and local public-welfare departments, such as exist in some States and for which there is a nucleus in all States in the Federal emergency-relief organizations.

ADMINISTRATION

The creation of a Social Insurance Board within the Department of Labor, to be appointed by the President and with terms to insure continuity of administration, is recommended to administer the Federal unemployment compensation act and the system of Federal contributory old-age annuities.

Full responsibility for the safeguarding and investment of all social insurance funds, we recommend, should be vested in the Secretary of the Treasury.

The Federal Emergency Relief Administration is recommended as the most appropriate existing agency for the administration of non-contributory old-age pensions and grants-in-aid to dependent children. If this agency should be abolished, the President should designate the distribution of its work. It is recommended that all social-welfare activities of the Federal Government be coordinated and systematized.

EMPLOYMENT ASSURANCE

A program of economic security for the Nation that does not include those now unemployed cannot possibly be complete. They, above all, are in need of security. Their tragic situation calls attention not only to their own desperate insecurity, but to the lack of security of all those who are dependent upon their own earnings for a livelihood. Therefore, any program for economic security that is devised must be more comprehensive than unemployment compensation, which of necessity can be given only for a limited period. In proposing unemployment compensation, we recognize that it is but a complementary part of an adequate program for protection against the hazards of unemployment, in which stimulation of private employment and provision of public employment on a security payment basis are other major elements.

PRIVATE EMPLOYMENT

In our economic system the great majority of the workers must find work in private industry, if they are to have permanent work. The stimulation and maintenance of a high level of private employment should be a major objective of the Government. All measures designed to relieve unemployment should be calculated to promote private employment and also to get the unemployed back into the main channel of production. We believe that provision of public employment in combination with unemployment compensation will most effectively serve these purposes. Both will operate to maintain

purchasing power, and public employment will indirectly give work to many more persons in private industry who otherwise would have none. At the same time, it will stimulate workers to accept and seek private employment when it becomes available.

PUBLIC EMPLOYMENT

What the Federal, local, and State governments would be called upon to do in providing work depends upon many complicated factors: Financial resources, advance planning, the general industrial trend and methods; but it is a sound principle that public employment should be expanded when private employment slackens, and it is likewise sound that work in preference to relief in cash or in kind should be provided for those of the unemployed who are willing and able to work.

The experience of the past year has demonstrated that making useful work available is a most effective means of meeting the needs of the unemployed. Further, it has been demonstrated that it is possible to put large numbers of persons to work quickly, at useful tasks under conditions acceptable to them. The social and economic values of completed projects represent a considerable offset to the economic losses occasioned by millions of unemployed workers. Work maintains occupational skill. The required expenditures have an important stabilizing effect on private industry by increasing purchasing power and employment and the completed works frequently produce self-liquidating income.

In periods of depression public employment should be regarded as a principal line of defense. Even in prosperous times, it may be necessary, on a smaller scale, when "pockets" develop in which there is much unemployment. Public employment is not the final answer to the problem of stranded communities, declining industries, and impoverished farm families, but is a necessary supplement to more fundamental measures for the solution of such problems. And it must be remembered that a large part of the population will not be covered by unemployment compensation. While it will not always be necessary to have public-employment projects to give employment assurance, it should be recognized as a permanent policy of the Government and not merely as an emergency measure.

Such an employment program must be related to unemployment compensation; and the resources of all public bodies, Federal, State, and local must be coordinated if the policy of employment assurance is to be effectively realized. It would be advantageous to include in the program many types of public employment other than those which are considered necessary for the regular operations of government. This would include not only public construction of all kinds, but also appropriate work to employ usefully the professional and self-employed groups in our population. Because of the predominant importance of State and local construction in total public construction it is also essential that such Federal agencies as are established be empowered to incorporate State and local construction into the work program. It would also be desirable to extend Federal loans at low rates of interest to States and local governments for employment purposes. Such loans, once established, should be on a self-liquidating basis, and

should become a revolving fund to be used over and over again as loans are repaid.

This entire program points immediately and inevitably toward practical advance planning—on a broad scale—to make the potential resources of a region available for the general welfare of the people involved and toward detailed development of individual projects. To this end we endorse the recommendations of the National Resources Board for the establishment of a permanent National Planning Board.

We propose that public employment be made as nearly like private employment as possible. Applicants should be selected for their apparent ability to do the work offered as well as on the basis of their need; and we believe the public employment offices should be extensively utilized for this purpose. Only those who really work should be kept at work; the others should be discharged as in private employment.

COORDINATION WITH UNEMPLOYMENT COMPENSATION

We believe it is desirable that workers ordinarily steadily employed be entitled to unemployment compensation in cash for limited periods when they lose their jobs. It is against their best interests and those of society that they should be offered public employment at this stage, thus removing them from immediate consideration for reemployment at their former work. Very often they will need nothing further than unemployment-compensation benefits, for they will be able to reenter private employment after a brief period, but if they are unable to do so and remain unemployed after benefit rights are exhausted, we recommend they should be given, instead of an extended benefit in cash, a work benefit—an opportunity to support themselves and their families at work provided by the Government.

Similarly, we deem provision of work the best measure of security for able-bodied workers who cannot be brought under unemployment compensation. Such workers will become eligible for public employment soon after the loss of regular employment, but more care will have to be exercised in their selection, to be certain that only workers who are ordinarily employed are given public employment.

UNEMPLOYMENT COMPENSATION

DESCRIPTION

Unemployment compensation, as we use this term, includes both unemployment insurance and unemployment reserves. It is a device through which reserves are accumulated during periods of employment to be paid out in periods of unemployment. In every system of unemployment compensation set up thus far, these reserves are built up through contributions paid by the employers alone, the employers and employees, or the employers, employees, and the Government. Except in England (where the contributions are uniform amounts per employee), the contributions everywhere are expressed as percentages of pay roll, and only in Belgium is a distinction made in the rate of contribution in different industries in accordance with their risk of unemployment.

All European systems create pooled unemployment insurance funds for the entire State or Nation, in which the contributions of all employers are commingled. The systems voluntarily established by a number of employers in this country and also the Wisconsin law (which is the only unemployment compensation act in force in this country) establish, instead, industry or company unemployment reserves, in which each employer (or industry) is responsible for his own employment and his employees must look exclusively to his reserve fund for their compensation.

Some European unemployment insurance systems are voluntary, but the experience everywhere has been that compulsory coverage is necessary to include a majority of the industrial workers. Even with compulsory coverage large groups of workers cannot readily be brought under unemployment compensation; among them employees in very small establishments, and, of course, all self-employed persons.

Benefits from unemployment-insurance funds are payable only for involuntary unemployment which is not due to the employee's own misconduct. An employee who is discharged or laid off is required to register at his nearest employment office, but draws no benefits during a specified waiting period. (In the basic calculations of our actuaries, a waiting period of 4 weeks was assumed.) If still unemployed after the waiting period, the worker becomes entitled to unemployment compensation at a specified percentage of his average wages prior to his discharge or lay-off, subject to an absolute maximum and, usually, also an absolute minimum. (In our calculations a 50-percent compensation rate and a maximum of $15 per week, but no minimum, were assumed.) Payments are usually made weekly and, an important condition in any unemployment-compensation system, the unemployed worker must keep in touch regularly with the employment office and cannot draw any further benefits if he refuses to accept suitable employment offered him. In any event, the maximum number of weeks of benefit that may be drawn is definitely limited through a ratio of weeks of benefit to weeks of previous employment (1 to 4 in our calculations) and by absolute limitations. (We suggest to the States in framing their laws that on the basis of 3-percent contribution rate the maximum benefit period cannot safely exceed 16 weeks and should be reduced to 15 weeks, if it is desired to give workers who have been long employed without drawing benefits an additional (maximum) week of compensation for each 6 months they have been employed without drawing benefits, up to a maximum of 10 additional weeks.)

After an unemployed worker has exhausted his right to benefits, European systems generally permit him to draw extended benefits, on a means-test basis, for additional periods, the entire cost of which is borne by the government. As we have stated, such extended cash benefits seem to us far less desirable than work benefits and we recommend that an employee, after he has exhausted his contractual rights, be certified to the authorities in charge of the Federal-work program as entitled to a work benefit. Such certification shall entitle the unemployed insured worker, who has exhausted his cash benefits, to employment on any available public employment project, without a means test, but with the proviso that he must be dependent upon his own earnings and that not more than one member of any family or household will be given public employment.

PLACE IN SECURITY PROGRAM

The actuaries and other technicians we have consulted estimate that if the plan we suggest had been in operation throughout the country in 1933, somewhat less than an average of 16,000,000 employed workers would have been included in the system, and that had there been in that year 100-percent employment, slightly more than 26,000,000 would have been included—one-half of the entire number of those gainfully occupied. These figures give the approximate minimum and maximum number of workers who can be brought under unemployment compensation; the total at any given time depending upon the state of industrial activity and the extent to which the system is really nation-wide in operation.

If a system of unemployment compensation had been in operation everywhere in this country during the years from 1922 to 1933, it is estimated that a 3-percent contribution rate with this coverage would have resulted in average total collections of approximately $825,000,000 per year, or $10,000,000,000 in the entire period. The estimated collections would have varied from a high of approximately $1,040,000,000 in 1929 to a low of $560,000,000 in 1932. During the twenties the contributions would have considerably exceeded the benefits paid and at the maximum point in 1929 approximately $2,000,000,000 would have been accumulated in the unemployment reserve funds, which would have been spent quite rapidly after the depression set in. In comparison with the emergency-relief expenditures, now approximating $1,800,000,000 per year, or the $1,000,000,000 annually invested by the workers of the country in industrial insurance even during the depression, and the more than $20,000,000,000 of assets of life-insurance companies, the total annual contributions and maximum reserves in a nation-wide unemployment-compensation system are small, but they are by no means negligible.

Unemployment compensation does not lend itself to actuarial determination of benefits of the same precision as is possible in other forms of insurance. We have now in this country only very limited statistics of unemployment. One of the values of a nation-wide system of unemployment compensation will be the collection of accurate and comprehensive unemployment statistics which it will make possible.

On the assumption, however, that the past experience during the entire business cycle does furnish at least an approximate guide to possible future unemployment, our actuaries and statisticians have computed the maximum-benefit periods which could have been allowed at varying contribution rates. These computations were made on the basis of the unemployment experience of the years 1922 to 1933 and 1922 to 1930, respectively, as shown in table 1.

TABLE 1.—*Actuarial estimates of the maximum number of weeks of benefit that could have been paid at various contribution rates and waiting periods under a Nation-wide unemployment compensation system on the basis of the unemployment rates from 1922 to 1933, and from 1922 to 1930*

Contribution rate	Waiting period	Standard maximum weeks of benefits			
		1922 to 1933 experience		1922 to 1930 experience	
		Unadjusted	With actuarial adjustments	Unadjusted	With actuarial adjustments
	Weeks				
3 percent	4	14	10	20	15
Do	3	13	9	18	14
Do	2	12	8	17	12
4 percent	4	21	15	36	24
Do	3	20	14	32	21
Do	2	18	12	28	18
5 percent	4	35	21	48	38
Do	3	31	19	48	35
Do	2	27	17	46	30

ASSUMPTIONS IN THE UNADJUSTED COMPUTATIONS

(1) Nation-wide coverage including all establishments employing six or more employees, but applying only to the first $50 per week as a wage or salary to any employee; (2) 1 year of contributions before benefits became payable; (3) deficits in reserve funds after end of period; and (4) benefits of 50 percent of the average weekly wages.

ADJUSTMENTS

On the columns giving the estimated maximum weeks of benefit "with actuarial adjustments" the above assumptions are basic, but allowance is made for all factors likely to increase or decrease costs, among them (1) the rule that no employee may draw benefits for whom contributions have not been paid for at least 40 weeks in the preceding years nor for 10 weeks after he has exhausted his benefit rights; (2) savings through employees voluntarily quitting their work and discharges for proven misconduct; (3) allowance of an additional maximum week of benefits for each 6 months of contributions without drawing benefits, up to a maximum of 10 additional weeks; (4) limitation of benefits in the ratio of 1 week of benefits to 4 weeks of contributions; (5) compensation for part-time unemployment; (6) limitation of compensation in seasonal industries to unemployment occurring within the normal season; (7) limitation of the maximum benefit to $15 per week; (8) estimated increases in costs resulting from the fact that benefits will be paid on a full-time wage basis while the contributions are made on actual pay roll, including much part time; (9) inadequacy of data; and (10) allowances for various contingencies, among them the probability of increased costs in the course of time, as is the experience in all other forms of insurance. Weighing all these and some other factors, the actuaries arrived at a loading of 28 percent above the unadjusted cost figures.

While the maximum benefit periods, set forth in table 1, are mere approximations, they very clearly indicate that on a contractual basis benefits can be paid only for periods which, to many people, will seem short. The benefits are small, although considerably higher on the average than relief grants. While unemployment compensation is far from being a complete protection, it is a valuable first line of defense for the largest group in our population, the industrial workers ordinarily steadily employed. Unemployment compensation should permit such a worker, who becomes unemployed, to draw a cash benefit for a limited period during which there is expectation that he will soon be reemployed. This should be a contractual right not dependent on any means test. Normally the insured worker will

return to his old job or find other work before his right to benefits is exhausted. If he does not find work, we recommend that his further period of unemployment should be met by a work benefit, as described in the section of this report dealing with employment assurance. This correlation between the cash benefit and the work benefit is recommended, and it seems to us that the combination is both fair and desirable. It will carry workers over most, if not all, periods of unemployment in normal times without resort to any other form of assistance. While the maximum benefit periods indicated by the actuarial calculations are short in relation to the unemployment suffered by the people now on relief, it must be remembered that in ordinary industrial periods the great majority of workers who become unemployed find other work in a much shorter time.

But unemployment compensation is also valuable in depression. If the benefits are kept within the limits we suggest, the funds should prove adequate for all minor depressions. In a depression of such depth as that which has prevailed since 1929, the funds are likely to be exhausted but will prove very helpful in the early stages. Had $2,000,000,000 been available for distribution to the workers when depression set in in 1929—as it might have been had an unemployment insurance system with a 3-percent contribution rate been in operation from 1922 on—it would have had a most pronounced stabilizing effect at a very crucial time. Within a year or a little more these accumulated reserve funds would have been exhausted, but considerable amounts would still have continued to be collected in contributions and distributed to the unemployed in benefits, thereby reducing relief costs and lightening the financial load on the public and the Government.

Some economists urge that, instead of using a tax on pay rolls, unemployment compensation should be paid through Federal Government borrowings to be repaid hereafter out of other types of Federal taxes. Without expressing any judgment on that contention, we deem it desirable, at the present time, to employ a pay-roll tax for unemployment compensation, although it may be possible that experimentation under the proposed statute will show that at some time in the future a plan built upon the other alternative suggestion should be substituted, in whole or in part, for that which we are proposing.

In not recommending any contributions derived from bond issues or income or other general tax sources, we have had in mind that the Government under the plan we suggest will incur large expenditures in providing a work benefit, which will complement the cash benefits from unemployment compensation. It is our conviction that, at least at this time, general tax revenues should be drawn upon rather for employment assurance than for unemployment compensation.

GENERAL SKETCH OF LEGISLATION

Unemployment insurance has been in successful operation in England and many other European countries for some years. While the English system suffered some discredit through the combination, from 1924 to 1931, of insurance with relief and in all countries the unemployment insurance funds have had to be governmentally aided and/or the rate of contributions increased and benefits decreased

during the present depression, unemployment insurance everywhere has survived the depression. (Russia, however, has paid no benefits since 1930.) While unemployment insurance has not proved a panacea for unemployment, it has in all countries provided a self-respecting method of support, far superior to relief, for a large percentage of the unemployed.

In this country there has been considerable interest in unemployment insurance ever since the enactment of the pioneer British law of 1911, especially since the depression of 1920–21. In the years that have intervened, considerable controversy has developed over the type of unemployment compensation legislation that should be enacted; particularly over such questions as unemployment insurance versus unemployment reserves, employee contributions, governmental contributions, extended benefits, and the type of unemployment to be benefited. It is our conviction that these controversies have developed largely because there has been no action and, therefore, no practical experience on this subject. Further investigations and other devices for delay will merely enhance the negative character of the debate. What is needed at this state is demonstration, not further debate and research.

This background, it seems to us, is an important consideration in determining the type of unemployment compensation legislation to be recommended. It clearly suggests the desirability of permitting considerable variation, so that we may learn through demonstration what is best. This we believe, can at this time, best be secured under a cooperative Federal-State system, which permits variations in State laws but insures uniformity in respects in which uniformity is absolutely essential.

A federally administered system of unemployment compensation is undoubtedly superior in some respects, particularly in relation to employees who move from State to State. This presents a problem involved in State administration which we do not at this time know how to solve, although we do not regard it as insoluble and recommend that it should be made one of the major subjects of study of the Federal administrative agency. We recognize also that in other respects State administration may develop marked inadequacies. Should these fears expressed by the champions of a federally administered system prove true, it is always possible by subsequent legislation to establish such a system. We recommend that it be expressly provided in the Federal act that all States must include in their statutes provisions to the effect that those acts shall not be deemed to create any vested interests preventing modification or repeal and that a similar reservation of power be made by the Federal Government. Accordingly, the Congress can at any time increase the requirements which State laws must fulfill and may, if it sees fit, at some future time, substitute a federally administered system for the cooperative Federal-State system we recommend.

All things considered, however, we deem it the safest and soundest policy to confine the role of the Federal Government, with respect to this problem at this time, to removing obstacles to State action, safeguarding and liquidating the reserve funds, and aiding the States with their problems, leaving to them primary responsibility for administration.

Federal cooperation is essential, because the States cannot establish systems of unemployment compensation with reasonably favorable conditions unless there is assistance from the Federal Government. So long as there is danger that business in some States will gain a competitive advantage through failure of the State to enact an unemployment-compensation law, few such laws will be enacted. This obstacle to State action can be removed only through the imposition by the Federal Government of a uniform tax (rate of contribution) on all employers throughout the country, so that no State will have an unfair advantage. We, therefore, recommend legislation which will impose a uniform Federal tax on pay rolls, with an offset permitted to any employer who contributes to an unemployment-insurance fund under a compulsory State law. This, we believe, will encourage the speedy enactment of State laws which meet minimum standards of security and fairness.

The Federal Government has a further important obligation in the safeguarding and investment of the reserve funds. Unemployment-reserve funds are peculiar in that the demands upon them will fluctuate violently with industrial conditions. In good years these funds will have receipts far in excess of disbursements; when serious depression sets in, the reserves will be used up rapidly. Unemployment compensation should not operate to increase unemployment, but there is danger that it will do so unless there is intelligent and unified handling of the reserve funds. One of the most important elements in attaining economic stability is the credit policy of the Government. Unless the investment and liquidation of the unemployment-reserve funds is coordinated with this credit policy, these funds may operate to nullify the attempts of the Government to maintain stability. Particularly, when the Government is trying to prevent a depression, the unemployment-reserve funds should not be thrown on the markets, as they are likely to be if held by the States or in private hands. Intelligently handled, unemployment-reserve funds can be made an important factor in preventing a depression; but utilization for this purpose is possible only if their investment and liquidation is within control of the United States Treasury. We deem this an absolute essential, if unemployment compensation is to accomplish the purposes for which it is designed.

Beyond this, the respective spheres of the State and local governments in unemployment compensation are not clearly defined. Some standardization is desirable, but we believe that this should not be a matter of Federal control, but of cooperative action. A cooperative Federal-State unemployment compensation system should include the essentials we have outlined. In making definite recommendations as to the technique of establishing such a system, we are proceeding in the conviction that our purpose could be most promptly and effectively accomplished by Federal legislation which would (1) produce uniformity in the burden, by levying a pay-roll tax; (2) stimulate the passage of complete and self-sustaining unemployment compensation laws in the States, by allowing a credit against the Federal tax for contributions paid under State laws; and (3) allow the necessary central control of the reserve funds, in order to prevent their operating toward instability. We prefer a tax credit device to one in which the tax would be wholly collected and then remitted, as grants-in-aid, to the States, because under the latter system the

States would not have self-supporting laws of their own, and as with all compensation having its source in Federal grants there would be great and constant pressure for larger grants exceeding the money raised by the tax, with a consequent confusion of compensation and relief.

OUTLINE OF FEDERAL ACT

We earnestly recommend prompt enactment by the Congress of legislation which will (1) impose a uniform pay-roll tax on the employers to whom the act is applicable, beginning with the year 1936, and (2) create machinery for participation in the administration of unemployment compensation.

The tax should be imposed upon all employers who have employed four or more employees for a reasonable period of time, (any 13 weeks of the taxable year for example), and should be measured by a percentage of the employer's pay roll. By 1938 the rate of tax should be 3 percent of the pay roll; but in the first 2 years, if economic recovery has not progressed satisfactorily, we recommend a lower rate, and suggest that the index of industrial production of the Federal Reserve Board may well be used to determine whether the rate in the first and second years shall be 1, 2, or 3 percent. We are opposed to exclusions of any specified industries from the Federal act, but favor the establishment of a separate nationally administered system of unemployment compensation for railroad employees and maritime workers.

Against the tax imposed in the Federal law, a credit, up to 90 percent of the tax, should be allowed for the money the employer has paid to the proper State authority as contributions for unemployment-compensation purposes pursuant to State law. These credits, however, should be permitted only if the State is cooperating with the Federal Government in the administration of unemployment compensation, expending the money raised solely for benefits, and is depositing all contributions as collected in an unemployment trust fund in the United States Treasury, as hereafter recommended.

If a State, to encourage stabilization of employment, permits particular industries or companies to have individual reserve or guaranteed employment accounts (accounts to be kept by the State authority, but deposit of the funds in the United States Treasury) or allows lower rates of contributions to employers not having such individual accounts on the basis of their favorable experience, an additional credit beyond the amount contributed in a particular year may be granted in the Federal act. We recommend, however, that such credit be allowed in all cases only on the condition that the employer has discharged in full his obligations under the State law and continues to pay at least 1 percent into the pooled State fund. Further, such an employer with an individual reserve account before becoming entitled to any additional credit, must have and maintain a reserve equal to at least 15 percent of his pay roll, and an employer with a guaranteed employment account a reserve of 7½ percent of his pay roll; while no additional credit for any reduction in rates payable to a pooled State fund may be allowed until after the State law has been in operation for 5 years.

To encourage efficient administration, without which unemployment insurance will fail to accomplish its purpose, we believe that

the Federal Government should aid the States by granting them sufficient money for proper administration, under conditions designed to insure competence and probity. Among these conditions we deem selection of personnel on a merit basis vital to success. We also recommend that as a condition, both of grants-in-aid for administration and of the allowance of any tax credits for payments made under any State unemployment-compensation act, the State must have accepted the provisions of the Wagner-Peyser Act and provide for the payment of unemployment compensation through the public employment offices established under such act. A grant-in-aid for administration would not create any new burden on the Federal Government, as it would be paid for by the amount of the pay-roll tax over and above the credits allowed for contributions to State funds.

As an essential part of the Federal law, it should be made a requirement for any tax credits that all moneys collected for unemployment-compensation purposes under State laws (including those credited to individual industry or company accounts) be deposited as collected in the Treasury of the United States in a trust account to the credit of the State, to be invested and liquidated as the Secretary of the Treasury may from time to time direct. Interest on the average amount so deposited in each State fund shall be allowed at regular intervals, at a rate equal to the average yield of all outstanding primary obligations of the Federal Government, less one-eighth of 1 percent. Withdrawals from the fund are to be made only for unemployment-compensation purposes, under regulations to be prescribed by the Secretary of the Treasury.

The collection of the Federal tax and investment of the reserve funds should be under the control of the Secretary of the Treasury. All other aspects of Federal participation in unemployment compensation should be a responsibility of the Department of Labor. We recommend the creation within the Department of Labor of a social insurance board. We recommend that the board consist of three members appointed by the President. They should devote full time to their duties and be appointed for terms of 6 years which should be varied at the outset to insure continuity in administrative policies. We recommend that this board be given power to decide what State laws comply with the Federal requirements and that it be made its duty to assist States in setting up unemployment-compensation administrations and in the solution of the problems they will encounter; also that it conduct continuous studies to correlate and make useful the experience developed under State laws. The social insurance board should, likewise, have responsibility for the administration of the compulsory and voluntary systems of old-age annuities, whose establishment we suggest in another section of this report, and should study the advisability of instituting other forms of social insurance.

The plan for unemployment compensation that we suggest contemplates that the States shall have broad freedom to set up the type of unemployment compensation they wish. We believe that all matters in which uniformity is not absolutely essential should be left to the States. The Federal Government, however, should assist the States in setting up their administrations and in the solution of the problems they will encounter.

SUGGESTIONS FOR STATE LEGISLATION

This Committee plans the preparation of a model State unemployment-compensation bill, with alternate clauses at many points. In this report it seems unnecessary to discuss all of the details of this model bill, since the legislature will determine the policy in each State. On some major points, however, comment seems appropriate.

Contributions.—The States should make all contributions compulsory and may require them from employers alone, or from employers and employees, with or without contributions by the State government.

Benefits.—The States should have freedom in determining their own waiting periods, benefit rates, maximum-benefit periods, etc. We suggest caution lest they insert benefit provisions in excess of collections in their laws. To arouse hopes of benefits which cannot be fulfilled is invariably bad social and governmental policy.

It is our recommendation that the benefit periods be kept within the maximum limits of the last column of table I, which has been presented earlier in this report, and in no event should they exceed those of the second last column. If it is considered desirable that the unemployment compensation funds should give protection in depression periods as well as in normal times, the maximum periods of the first two columns should be regarded as standard. While unemployment varies greatly in different States, there is no certainty that States which have had less than normal unemployment heretofore will in the future have a more favorable experience than the average for the country. States whose industries are such that they will probably continue to have a high rate of unemployment should not pay benefits up to the maximum amounts permitted in the actuarial calculations. With industry or company funds, longer benefit periods can be permitted if the employers guarantee payment of these benefits in full and furnish security adequate to insure fulfillment of these guaranties, but in all other cases it is preferable at the outset to err on the side of safety than of too great liberality.

At this point we call attention to the desirability of allowing additional weeks of benefit to employees who have been long employed without drawing benefits. The British experience has been that a very large percentage of all employees draw no benefit over periods of many years. These are the workmen longest retained, who, particularly if they are required to contribute, have a very good claim for additional benefits when, because of a depression or changes in technic, they lose their jobs and are unable to find other work. Our actuarial estimates indicate that if 1 week is taken off the ordinary benefit period for all workers, a special maximum of an additional week of benefits can be allowed to workers who have not drawn benefits for 6 months, 2 weeks for those who have not drawn benefits for 12 months, etc., up to a maximum of 10 weeks' additional benefits for workers who have not drawn any benefits for 5 years.

Provisions to protect funds against heavy drains by particular classes of employees.—The provision last suggested is in line with the world experience that unemployment compensation is best adapted to employees who normally have some degree of security in their employment. Such workers, we feel, should be given some protection against exhaustion of the funds by others who work only intermittently.

English experience has demonstrated that seasonal industries will cause a heavy drain on the unemployment insurance funds unless the benefits to seasonal workers are limited to unemployment occurring within the usual season for that particular industry. Determination of what this season is for each distinct seasonal industry must necessarily be left to the administrative authority.

Similarly, the funds need to be protected against too heavy drain by the casual workers. This can best be done: (1) Through a ratio which relates the maximum weeks of benefit to the weeks of employment, the usual ratio suggested being 1 to 4; and (2) allowing benefits only if the employee has worked with some degree of regularity.

Partial unemployment creates another special problem. It is desirable, within limits, that work shall be shared when orders fall off, rather than that some employees shall be laid off altogether. It is also desirable that an unemployed man take part-time or odd-job employment when possible. Therefore, to encourage this, we advise that State laws should provide that the combination of part-time wages and benefits is better than benefits alone.

Willingness-to-work test.—To serve its purposes, unemployment compensation must be paid only to workers involuntarily unemployed. The employees compensated must be both able and willing to work and must be denied benefits if they refuse to accept other suitable employment. Workers, however, should not be required to accept positions with wage, hour, or working conditions below the usual standard for the occupation or the particular region, or outside of the State, or where their rights of self-organization and collective bargaining would be interfered with.

Individual industry and company accounts.—The primary purpose of unemployment compensation is to socialize the losses resulting from unemployment, but it should also serve the purpose of decreasing rather than increasing unemployment. We favor leaving it optional with the States whether they will permit any "contracting out" from State-pooled funds in the sense that separate accounts may be set up for the exempted industries or companies, but without any change in the methods of collection or deposit and investment of funds. We strongly urge, however, that only plants which furnish adequate security to guarantee payment in full of all unemployment compensation which may become due to their employees shall be permitted to have separate accounts, and only upon condition that they pay 1 percent of their pay roll into the general State fund. We further advise that if "contracting out" be permitted, the State law should contain provisions under which employees will not lose their unused benefit rights, or any contributions which they may have made to such accounts above benefits received when they voluntarily leave the employ of an employer with a separate reserve account, lest such accounts operate to interfere with the mobility of labor. Experimentation with individual industry and company reserve accounts under proper restrictions will undoubtedly be permitted in some States, therefore, the importance of adequately safeguarding both the rights of the workers and the pooled State funds is emphasized.

We are opposed to any provision in the Federal act under which any industries or companies are exempted from State laws prescribing an exclusive State-pooled fund.

Guaranteed employment.—Guaranteed employment is a device which if properly safeguarded will effectually secure all of the purposes of unemployment compensation. There would be no unemployment problem if all workers were guaranteed a sufficient annual wage. We feel it to be desirable that employers be permitted to experiment with guaranteed employment under the State laws, but also that such experiments should be conducted only under safeguards. Guaranteed employment, we believe, should be recognized as a reason for reduced contributions in State laws, only if the employees get at least as much protection as that afforded to employees by unemployment compensation. The period of guaranteed employment when it is claimed as an offset, should be for at least 40 weeks of full-time employment during the year, although less than full-time employment may be counted toward fulfillment of the guaranty if the number of weeks of guaranteed employment is correspondingly increased. Employees should be further protected by a provision in State laws under which they will receive at least half of the normal unemployment-compensation benefits if they lose employment at the end of the guaranty period. Employers claiming contributions credits by guaranteeing employment should be permitted to do so only if the plan includes all their employees or all employees of entire plants. They should be required to make some contribution to the pooled State unemployment-compensation fund and should be entitled to additional credits against the Federal tax only if they fulfill all obligations of their guaranty and have accumulated an adequate reserve. Sufficient security should be required by the State authority to insure fulfillment of the guaranty.

GENERAL COMMENTS

The plan of unemployment compensation we suggest is frankly experimental. We anticipate that it may require numerous changes with experience and, we believe, is so set up that these changes can be made through subsequent legislation as deemed necessary. If we are to wait until everyone interested in the subject is in agreement as to what is a perfect measure before enacting unemployment-compensation legislation, there will be a long and unwarranted postponement of action.

The plan we suggest is one that will secure the much-needed experience necessary for the development of a more nearly perfect system. It is in accord with American traditions and the message of the President which initiated our study of this subject.

We submit that the Federal part of the program should be enacted into law by the Congress at the earliest date possible. This is urgently necessary if the State legislatures are to act in time to permit the legislation to go into effect January 1, 1936. In the coming year, 44 of the 48 States will hold regular sessions of their legislatures. Most of these will convene in January and will be in session 3 months or less. Unemployment compensation in this country will suffer another year of delay unless there is prompt action by the Congress.

OLD-AGE SECURITY

THE OLD-AGE PROBLEM

In 1930 there were 6,500,000 people over 65 years of age in this country, representing 5.4 percent of the entire population. This percentage has been increasing quite rapidly since the turn of the century and is expected to continue to increase for several decades. It is predicted, on the basis of the present population and trends, that by 1940, 6.3 percent of the population will be 65 years of age; by 1960, 9.3 percent, and by 1975, 10 percent. In 25 to 30 years the actual number of old people will have doubled, and this estimate does not take into account the possibility of a decrease in the mortality rate, which would further increase the total.

No even reasonably complete data is available regarding the means of support of aged persons, and the number in receipt of some form of public charity is not definitely known. The last almshouse survey was made more than 10 years ago, and the number of people in institutions of this kind can only be approximated. There are about 700,000 people over 65 years of age on F. E. R. A. relief lists, and the present cost of the relief extended to these people has been roughly estimated at $45,000,000 per year. In addition there are a not definitely known but large number of old people in receipt of relief who are not on F. E. R. A. relief lists. All told, the number of old people now in receipt of public charity is probably in excess of 1,000,000.

The number in receipt of some form of pension is much smaller. Approximately 180,000 old people, most of them over 70 years of age, are receiving pensions under the State old-age assistance laws, the average pension last year being $19.74 per month.

A somewhat smaller number of the aged are receiving public retirement or veterans' pensions, for which the expenditures exceed those under the general old-age assistance laws. Approximately 150,000 aged people are in receipt of industrial and trade-union pensions, the cost of which exceeds $100,000,000 per year.

The number of the aged without means of self-support is much larger than the number receiving pensions or public assistance in any form. Upon this point the available data is confined to surveys made in a few States, most of them quite a few years ago. Connecticut (1932) and New York (1929) found that nearly 50 percent of their aged population (65 years of age and over) had an income of less than $25 per month; 34 percent in Connecticut had no income whatsoever. At this time a conservative estimate is that at least one-half of the approximately 7,500,000 people over 65 years now living are dependent.

Children, friends, and relatives have borne and still carry the major part of the cost of supporting the aged. Several of the State surveys have disclosed that from 30 to 50 percent of the people over 65 years of age were being supported in this way. During the present depression, this burden has become unbearable for many of the children, with the result that the number of old people dependent upon public or private charity has greatly increased.

The depression will inevitably increase the old-age problem of the next decades. Many children who previously supported their parents have been compelled to cease doing so, and the great majority

will probably never resume this load. The depression has largely wiped out wage earners' savings and has deprived millions of workers past middle age of their jobs, with but uncertain prospects of ever again returning to steady employment. For years there has been some tendency toward a decrease in the percentage of old people gainfully employed. Employment difficulties for middle-aged and older workers have been increasing, and there is little possibility that there will be a reversal of this trend in the near future.

Men who reach 65 still have on the average 11 or 12 years of life before them; women, 15 years. A man of 65 to provide an income of $25 per month for the rest of his life (computing interest at 3 percent) must have accumulated approximately $3,300; a woman nearly $3,600. If only this amount of income is allowed to all of the people of 65 years and over, the cost of support of the aged would represent a claim upon current national production of $2,000,000,000 per year. Regardless of what may be done to improve their condition, this cost of supporting the aged will continue to increase. In another generation it will be at least double the present total.

GENERAL OUTLINE OF RECOMMENDATIONS

An adequate old-age security program involves a combination of noncontributory pensions and contributory annuities. Only noncontributory pensions can serve to meet the problem of millions of persons who are already superannuated or shortly will be so and are without sufficient income for a decent subsistence. A contributory annuity system, while of little or no value to people now in these older age groups, will enable younger workers, with the aid of their employers, to build up gradually their rights to annuities in their old age. Without such a contributory system the cost of pensions would, in the future, be overwhelming. Contributory annuities are unquestionably preferable to noncontributory pensions. They come to the workers as a right, whereas the noncontributory pensions must be conditioned upon a "means" test. Annuities, moreover, can be ample for a comfortable existence, bearing some relation to customary wage standards, while gratuitous pensions can provide only a decent subsistence.

Contributory annuities can be expected in time to carry the major, but under the plan we suggest, never the entire load. Difficult administrative problems must be solved before people who are not wage earners and salaried employers can be brought under the compulsory system, and it is to be expected that some people from higher income groups will come to financial grief and dependence in old age. Until literally all people are brought under the contributory systems, noncontributory pensions will have a definite place even in long-time old-age security planning.

There also is need for a voluntary system of annuities to supplement the compulsory system we advocate, intended primarily for persons of low and moderate income who are not included in the compulsory system. While the latter is not as important as the noncontributory pensions and the compulsory system of contributory annuities, we recommend the establishment of a related, but distinct, voluntary system of Government old-age annuities, for restricted groups in the population who do not customarily purchase annuities from commercial insurance companies.

Finally, in any complete program for old-age security, those aged should be considered who must be cared for in institutions—those who need custodial care which friends and relatives will not provide. Factual data bearing on the institutions for the care of the aged and their inmates is very scant and most of it out of date. We, therefore, recommend that the United States Department of Labor undertake at once, a special survey of such institutions for the purpose of developing a constructive program for the improvement of institutional maintenance of the aged.

NONCONTRIBUTORY OLD-AGE PENSIONS

Old-age pensions are recognized the world over as the best means of providing for old people who are dependent upon the public for support and who do not need institutional care. In this country 28 States and 2 Territories now have laws providing for the payment of noncontributory pensions to dependent aged persons. The minimum age specified in these laws is either 65 or 70. All of them require long periods of residence within the State and allow pensions only if the aged applicants are without any substantial amount of property or income and have no relatives legally responsible for their support. In most of these acts the pensions are limited to a maximum of $1 per day less any other income the pensioners may receive from any source. A few of the laws are less restrictive, but not more than two or three of the entire number can be regarded as even reasonably adequate. The administrative provisions in many of the laws are likewise defective; the officials who grant the pensions have no facilities for investigation and there is no machinery for supervision. Many laws place the entire cost of pensions on the local governments, and about one-third of these acts are optional in the sense that counties may or may not operate under the pension system as they see fit.

Many of these old-age pension laws are entirely nonfunctioning; many pension authorities, because of financial pressure, have cut benefits below a proper minimum, and there are long waiting lists of needy persons. While some improvement along these lines is to be expected with the insistent popular demand for old-age pensions, financial limitations are such that local and State action alone cannot be relied upon to provide either adequate or universal old-age assistance.

As has been stated, there are four times as many old people over 65 on relief lists as are in receipt of old-age pensions. These aged people do not belong on emergency-relief lists and, very properly, are now being eliminated therefrom. They should instead be provided for under old-age pension laws, operating in all States.

There is little likelihood, however, that an appreciable number of the dependent aged will receive pensions unless the financing of such measures is put on a radically different basis than at present. Both State and Federal participation are vital if the dependent aged are to be cared for through the human pension method.

Federal grants-in-aid will encourage the enactment of liberal old-age pension laws in all States, and the granting of pensions to all of the aged who are dependent upon the public for support, and who do not need institutional care. We therefore recommend a system of Federal grants-in-aid to States and Territories which provide old-age

assistance for their needy aged under plans approved by the Federal Emergency Relief Administration, or its successor agency. These grants-in-aid, we suggest, should be one-half of the total expenditures for old-age pensions, including administrative expenses, but with a proviso limiting the Federal subsidy to $15 per month for any individual and the aid for administrative expenses to 5 percent of the State's total expenditures for old-age assistance.

Conditions of grants.—Since the Federal Government, under the plan we recommend, is to assume one-half the cost of old-age pensions, we deem it proper that it should require State legislation and administration which will insure to all of the needy aged pensions adequate for their support. We recommend that aid be granted only to those States which enact laws that are State-wide or Territory-wide in scope, and, if administered by political subdivisions, are mandatory upon them. Such laws may limit the granting of pensions to citizens of the United States and residents of the State or Territory, but may not require a longer period of residence than 5 years, within the last 10 years preceding the application for a pension. Property and income limitations may, likewise, be prescribed but no aged person otherwise eligible may be denied a pension whose property does not exceed $5,000 in value or whose income is not larger than is necessary for a reasonable subsistence compatible with decency and health. The pension to be allowed must be an amount sufficient, with the other income of the pensioner, for such a reasonable subsistence. Federal grants-in-aid are to be paid only on account of pensions granted to persons over 65 years of age, but until January 1, 1940, States may maintain a 70-year age limit which must thereafter be reduced to 65. No Federal aid is to be extended for aged persons cared for in institutions, and so much of the total pensions paid to any pensioner as was derived from the United States government shall constitute a lien on the estate of the aged recipient, which, upon his death shall be enforced by the State or Territory and refunded to the Federal Government. The administration of the old-age pension laws must be under the supervision of a designated State department and must be so conducted as to insure fulfillment of the intent of the Federal grants-in-aid; namely, to give all dependent aged persons not in need of institutional care a decent subsistence in their own homes.

Costs.—Only approximate estimates can be given regarding the costs of the proposed grants-in-aid. If a compulsory contributory annuity system is not established at the same time, actuarial estimates indicate that the Federal share of the cost of the noncontributory old-age pensions may in the first year reach a total of $136,600,000; in the second year $199,000,000 and would increase steadily thereafter until it reaches a maximum of $1,294,300,000 by 1980. We believe that these estimates are too high, particularly in the earlier years, as they do not allow sufficiently for the lag likely to occur before all the dependent aged will actually be granted pensions. Since the total now expended for old-age pensions is less than $40,000,000 per year and more than half of the entire population of the country is in States which have old-age pension laws, we are of the opinion that $50,000,000 will be sufficient in the first year to pay the Federal share of the old-age pension costs. Thereafter, this figure will tend to increase rather rapidly, and by 1980 may reach the

great total estimated by the actuaries. The estimates of the actuaries consulted by this Committee are in our judgment so high in estimated figures for 1980 that further careful studies must be given to them, with the objective of finding ways and means for reduction and limitation of estimated Government contributions as of that year.

Obviously these figures will be reduced if a compulsory system of contributory annuities is established simultaneously with the Federal grants-in-aid. Sound financing demands this simultaneous action. The estimates of the actuaries indicate that if a compulsory system of contributory annuities is started by January 1, 1937, the Federal grants-in-aid to the noncontributory pensions will by 1980 total less than 40 percent of the amount they will reach by that date if a contributory system is not started.

Furthermore, the actuarial figures assume that contributory annuities will not cover a large percentage of our population comprising those who are not actual wage earners. It is essential that as soon as possible these persons be brought into the compulsory system of contributory annuities, else the annual Government contributions will be so high as to constitute an impossible charge on the taxpayers.

Contributory Annuities (Compulsory System)

It is only through a compulsory, contributory system of old-age annuities that the burden upon future generations for the support of the aged can be lightened. With an increasing number and even more rapidly increasing percentage of the aged, the cost of supporting old persons will be a heavy load on future generations regardless of any legislation that may be enacted. Pensions sufficient for a decent subsistence for all of the aged who are dependent upon the public for support are approved by the overwhelming majority of the people of this country. In order to reduce the pension costs and also to more adequately provide for the needs of those not yet old but who will become old in time, we recommend a contributory annuity system on a compulsory basis, to be conducted by the Federal Government. Because of the large number of people involved and the other duties imposed on the social insurance board (which we recommend should have responsibility for the administration of all types of social insurance), we deem it desirable that the taxes to finance this system should not become effective until January 1, 1937, but believe that the necessary legislation should be enacted at an early date, to enable the board to make the necessary studies and other preparations for putting this plan into operation.

Outline of plan.—We recommend that the contributory annuity system include, on a compulsory basis, all manual workers and nonmanual workers earning less than $250 per month, except those of governmental units and those covered by the United States Railroad Retirement Act. (In the first 5 years that the act is in effect, only employees who, on the effective date are less than 60 years of age, are to be included.) Employees who lose compulsory coverage (by becoming employers, ceasing to work, etc.) after they have made at least 200 weekly contributions are to be permitted to continue membership on a voluntary basis by paying a contribution equal to the combined contributions required from employers and employees.

The compulsory contributions are to be collected through a tax on pay rolls and wages, to be divided equally between the employers and employees. To keep the reserves within manageable limits, we suggest that the combined rate of employers and employees be 1 percent in the first 5 years the system is in effect; 2 percent in the second 5 years; 3 percent in the third 5 years; 4 percent in the fourth 5 years, and 5 percent thereafter. If it is deemed desirable to reduce the burden of the system upon future generations, the initial rate may well be doubled and the taking effect of each higher rate advanced by 5 years.

Both the tax on employers and the employees is to be collected through the employers, who shall be entitled to deduct the amount paid in the employees' behalf from wages due them. The necessary rules and regulations for collection of contributions are to be prescribed by the Secretary of the Treasury.

We suggest that the Federal Government make no contribution from general tax revenues to the fund during the years in which income exceeds payment from the funds, but that it guarantee to make contributions, when the level of payment exceeds income from contributions and interest, sufficient to maintain the reserve at the level of the last year in which income exceeded payments. According to our actuarial estimates the reserve on this basis would be maintained at about $15,250,000,000.

No benefits are to be paid until after the system has been in operation for 5 years, nor to any person who has not made at least 200 weekly contributions, nor before the member has reached the age of 65 and retired from gainful employment. Persons retiring after having passed age 65 will receive only the same pension as if they had retired at that age. The benefits are normally to take the form of annuities payable during the remainder of the life of the annuitant. Should a member die before the age 65 or before the amount of his own contributions has been paid to him as an annuity, the difference between his contributions and the amount which he may have received as an annuity, with interest at 3 percent, is to be paid as a death benefit to his dependents. Members who have made contributions for a short time but who, on reaching age 65 are not entitled to an annuity (because they have not made 200 contributions) are to be refunded their own contributions with 3-percent interest.

Under one proposal considered by the Committee, the annuity payable to members in whose behalf contributions are first paid during the years 1937 to 1941 shall be computed as follows: If they are eligible to retirement in the sixth year after becoming members, their annuity shall be equal to 15 percent of the average weekly wage during the period they have been within the system, not counting that portion of the wage in excess of $150 per month. For those retiring in the next 5 years this annuity is to be increased by 1 percent of the average weekly wage for each additional 40 weeks of contributions, but the increase shall not exceed 1 percent for each year of membership in the system. Thereafter the initial annuity is to be increased by 2 percent for each 40 weekly contributions, but not more than 2 percent per year, until a maximum pension of 40 percent of the first $150 average monthly wages upon which contributions have been paid shall be reached.

The minimum annuity payable to persons in whose behalf contributions are first paid in 1942 or subsequent thereto, shall on retirement at age 65 or over and after 200 weekly contributions, be 10 percent of the first $150 average monthly wages upon which contributions have been paid. To this 10 percent shall be added 1 percent for each 40 weekly contributions subsequent to the first 200 payments made within the first 5 years of membership in the system, but not to exceed 1 percent for each year of membership after the qualifying period of 5 years.

An annuitant with a spouse, if he or she so desires, may choose in lieu of an annuity on the basis outlined, an actuarially equivalent joint survivorship annuity. In all cases, also members shall not receive less than the actuarial equivalent of their own contributions.

The administration of the compulsory old-age annuity system we recommend should be vested in the social insurance board. All reserve funds of the system, however, shall be invested and managed by the Secretary of the Treasury, on the same basis as the unemployment compensation funds.

Explanation.—The plan outlined above contemplates that workers who enter the system after the maximum contribution rate has become effective will receive annuities which have been paid for entirely by their own contributions and the matching contributions of their employers. Workers now middle-aged or older will receive annuities which are substantially larger than could be purchased by their own and the matching contributions, although considerably less than the annuities which will be paid to workers who contribute for longer periods. Larger annuities than on a strictly earned basis would seem desirable because annuities build up only very slowly—for instance, a 4-percent contribution rate on a wage of $100 per month will produce at age 65 an annuity of only $2.58 per month if contributions were made for 5 years beginning at 60 years; $5.95 after 10 years, contributions beginning at 55; and $10.19 after 15 years, contributions beginning at age 50.

The allowance of larger annuities than are warranted by their contributions and the matching contributions of their employers to the workers who are brought into the system at the outset, will involve a cost to the Federal Government which, if payments are begun immediately, will total approximately $500,000,000 per year. Under the plan suggested, however, no payments will actually be made by the Federal Government until 1965, and will, of course, be greater than they would be if paid as incurred, by the amount of the compound interest on the above sum. This plan thus involves the creation of a debt upon which future generations will have to pay large amounts annually, the Federal contributions representing the interest at 3 percent on the debt thus incurred to pay (partially) unearned annuities in the early years of the system.

While the creation of this debt will impose a burden on future generations which we do not wish to minimize, we, nevertheless, deem it advisable that the Federal Government should not pay its share of the cost of old-age annuities (the unearned part of the annuities to persons brought into the system at the outset) currently. To do so would create a reserve which would reach a total of about $75,000,000,000. Further, to pay this cost now would unfairly burden the younger part of the present generation, which would not only pay for

the cost of its own annuities, but would also pay a large part of the annuities to the people now middle-aged or over. Expressed differently, the plan we advocate amounts to having each generation pay for the support of the people then living who are old. However, we favor showing the debts to the fund currently incurred by the Government, which debts should be evidenced by formal Government obligations issued to the fund. We accordingly recommend that an actuarial audit of the annuity fund be made and published annually which shall set forth clearly the present status of the fund, taking into account future payments and future income, and will show the present worth of the obligations being incurred by the Federal Government.

This plan also contemplates only small contributions by employers and employees during the early years of the system. Somewhat larger payments in the early years may be advisable, to reduce the necessary Government contributions later on. If the initial rate were increased to 1 percent each on employers and employees and each higher rate come into operation 5 years earlier than in the plan discussed, the reserve funds would at the maximum amount to $28,200,000,000, and the ultimate Federal contribution decreased by $350,000,000 per year.

Costs.—Actuarial estimates based on the plan we have described indicate that the income of the compulsory annuity fund will in the first 5 years that the system is in operation amount to a little more than $300,000,000. With increases in rates and interest earnings on the reserve, this income will increase quite rapidly until by 1980 it will amount to $2,200,000,000 per year. Benefit payments will be light in the early years but will increase steadily until, by 1965, they will exceed the annual receipts. It is at this stage that the Federal Government would begin to make contributions to the annuity system, which, under the figures submitted by the actuaries, reaches a maximum of above $1,400,000,000 per year by 1980. (Those contributions by the Federal Government, as has been stated, represent the unearned part of the pensions paid to people now approaching old age, with interest on these amounts calculated at 3 percent.)

We realize that there may be valid objection to this plan, in that it involves too great a cost upon future generations. This cost can be reduced by putting the rate of 5 percent into effect at an earlier date; it can be entirely eliminated only through not paying any annuities that have not been fully earned. If the Congress deems it advisable to make either or both of these changes, we are prepared to suggest detailed plans for doing so.

Instead of a Government subsidy to the contributory annuity system it may be advisable to supplement the earned annuities of people now old (and whose earned annuities are, therefore, small) by granting them assistance under noncontributory old-age pension laws, on a more liberal basis than in the case of persons who have accumulated no rights under the contributory annuity system. Thus, one of the required provisions of a State old-age-pension law might be that in no event, prior to the year 1960, shall an annuity to which a person is entitled under the contributory annuity system be taken into account in determining the need of such person for assistance.

In considering the costs of the contributory system, it should not be overlooked that old-age annuities are designed to prevent destitution and dependency. Destitution and dependency are enormously

expensive, not only in the initial cost of necessary assistance but in the disastrous psychological effect of relief upon the recipients, which, in turn, breeds more dependency.

The contributions required from employers and employees have an equally good justification. Contributions by the employees represent a self-respecting method through which workers make their own provision for old age. In addition, many workers themselves on the verge of dependency will benefit through being relieved of the necessity of supporting dependent parents on reduced incomes and at the expense of the health and well-being of their own families. To the employers, contributions toward old-age annuities are very similar to the revenues which they regularly set aside for depreciation on capital equipment. There can be no escape from the costs of old age; and since these costs must be met, an orderly system under which employers, employees, and the Government will all contribute appears to be the dignified and intelligent solution of the problem.

VOLUNTARY OLD-AGE ANNUITIES

The voluntary system of old-age annuities we suggest as a supplement to the compulsory plan contemplates that the Government shall sell to individuals, on a cost basis, deferred life annuities similar to those issued by commercial insurance companies; that is, in consideration of premiums paid at specified ages, the Government would guarantee the purchasers a definite amount of income, starting at 65, for example, and continuing throughout the lifetime of the annuitant. The primary purpose of the plan is to offer persons not included within the compulsory system a systematic and safe method of providing for their old age. It could also be used by insured persons as a means of supplementing the old-age income provided under the compulsory plan.

Without attempting to outline in detail the terms under which Government annuities should be sold, it is believed that a satisfactory and workable plan, based on the following principles, could be developed without great difficulty:

1. The plan should be self-supporting, and premiums and benefits should be kept in actuarial balance by any necessary revision of the rates which periodic examinations of the experience would indicate.

2. The terms of the plan should be kept as simple as practicable in the interest of economical administration and to minimize misunderstanding on the part of individuals utilizing these arrangements. This could be accomplished by limiting the types of annuity offered to two or three of the most important standard forms.

3. The plan should be designed primarily for the same economic groups as those covered by compulsory system; hence, provision should be made for the acceptance of relatively small premiums (as little as $1 per month) and the maximum annuity payable to any individual should be limited to the actuarial equivalent of $50 per month.

4. The plan should be administered by the social insurance board along with the compulsory old-age-insurance system, but as a separate undertaking.

5. The social insurance board should study the feasibility of Government contribution toward the annuities of people now middle aged or older with income of $2,500 per year or less who come under this

voluntary plan, comparable to the unearned part of the annuities which will be paid by the Government to people of middle age or older who are brought under the compulsory system. This is but a fair deal to farm owners and tenants, self-employed persons and other people of small incomes whose economic situation may be not one whit better than that of many workers covered by the compulsory system. Further study will be necessary, however, before a practical method of accomplishing this purpose can be suggested, one which will avoid the danger of benefiting those persons who need assistance least.

SECURITY FOR CHILDREN

It must not for a moment be forgotten that the core of any social plan must be the child. Every proposition we make must adhere to this core. Old-age pensions are in a real sense measures in behalf of children. They shift the retroactive burdens to shoulders which can bear them with less human cost, and young parents thus released can put at the disposal of the new member of society those family resources he must be permitted to enjoy if he is to become a strong person, unburdensome to the State. Health measures that protect his family from sickness and remove the menacing apprehension of debt, always present in the mind of the breadwinner, are child-welfare measures. Likewise, unemployment compensation is a measure in behalf of children in that it protects the home. Most important of all, public job assurance which can hold the family together over long or repetitive periods of private unemployment is a measure for children in that it assures them a childhood rather than the premature strains of the would-be child breadwinner.

There are at the moment over 7,400,000 children under 16 years of age on the relief rolls. The lives of some of these children, who have never known a time when their father had a steady job, and who, until Federal relief provided the family with a weak cohesive agent, have known nothing but the threat of being scattered, are lost beyond full restoration to their physical and social fulfillment. Their childhood is already destroyed and their future dark and uncertain. In this age group are 300,000 dependent and neglected children; 300,000 to 500,000 children who are physically handicapped; 200,000 who come as delinquents annually before the courts; and the 75,000 illegitimate children born each year. Special kinds of care must be provided for them to save them from a future more tragic than their impaired childhood.

Most of the children on relief lists are less conspicuously unfortunate, but all of them lack at least one major essential for a childhood which will prepare them in 5, 10, or 15 years to be the mainstay of society. Nothing is wrong with their environment but their parents' lack of money to give them opportunities which are taken for granted in more fortunate homes.

AID TO FATHERLESS CHILDREN

Among these children most especial attention must be given to the children deprived of a father's support, usually designated as the objects of mothers' aid or mothers' pension laws, of whom there are now above 700,000 on relief lists. The very phrases "mothers' aid" and "mothers' pensions" place an emphasis equivalent to miscon-

struction of the intention of these laws. These are not primarily aids to mothers but defense measures for children. They are designed to release from the wage-earning role the person whose natural function is to give her children the physical and affectionate guardianship necessary, not alone to keep them from falling into social misfortune, but more affirmatively to rear them into citizens capable of contributing to society.

Legislation for "mothers' pensions" has been in operation in this country for more than 20 years. Such laws exist in 45 States. Yet less than one-third the number of similar families on relief are now actually receiving mothers' pensions. The cost of these pensions is $37,200,000 a year; $6,000,000 of this comes from State government; local units supply the balance. Less than one-half of the local units authorized to grant mothers' aid are actually doing so. Many others are granting amounts insufficient to defend the children involved. Part of this situation is due to indifference, but in part it is due to the poverty of many local governmental units and to the fact that the Federal Government has been paying the major costs when fatherless families are placed on relief, whereas it makes no contribution to mothers' aid.

When the Federal Government terminates Federal relief the situation will become immeasurably worse. Neither the return of prosperity nor any of the measures suggested in this report will meet the problem. Mothers' pensions will only partially and inadequately do so as long as the cost falls almost entirely on local governmental units. To meet the situation effectually increased State appropriations and Federal grants-in-aid are essential.

Such Federal grants-in-aid are a new departure, but it is imperative to give them if the mothers'-care method of rearing fatherless families is to become nationally operative. The amount of money required is less than the amount now given to families of this character by the Federal Government by the less desirable route of emergency relief. An initial appropriation of approximately $25,000,000 per year is believed to be sufficient. If the principle is adopted of making grants equal to one-half of the State and local expenditures (one-third the total cost), with special assistance to States temporarily incapacitated, this sum might in time rise to a possible $50,000,000. Federal grants should be made conditional on passage and enforcement of mandatory State laws and on the submission of approved plans assuring minimum standards in investigation, amounts of grants and administration. After a specified date, State financial participation should be insisted upon. This might take the form either of equalization grants to local units or of per-capita grants, as the several States may prefer.

CHILD CARE SERVICES

Local services for the protection and care of dependent and physically and mentally handicapped children are generally available in large urban centers, but in less populous areas they are extremely limited or even nonexistent. One-fourth of the States, only, have made provisions on a State-wide basis for county child-welfare boards or similar agencies, and in many of these States the services are still inadequate. With the further depletion of resources during the depression there has been much suffering among many children because

the services they need have been curtailed or even stopped. To counteract this tendency and to stimulate action toward the establishment of adequate State or local child welfare services, a small Federal grant-in-aid, we believe, would be very effective.

CHILD AND MATERNAL HEALTH SERVICES

The fact that the maternal mortality rate in this country is much higher than that of nearly all other progressive countries suggests the great need for Federal participation in a Nation-wide maternal and child-health program. From 1922 to 1929 all but three States participated in the successful operation of such a program. Federal funds were then withdrawn and as a consequence State appropriations were materially reduced. Twenty-three States now either have no special funds for maternal and child health or appropriate for this purpose $10,000 or less. In the meantime, the need has become increasingly acute.

Crippled children and those suffering from chronic diseases such as heart disease and tuberculosis constitute a regiment of whose needs the country became acutely conscious only after the now abandoned child- and maternal-health program was inaugurated. In more than half the States some State and local funds are now being devoted to the care of crippled children. This care includes diagnostic clinics, hospitalization, and convalescent treatment. But in nearly half the States nothing at all is now being done for these children and in many the appropriations are so small as to take care of a negligible number of children. Since hundreds of thousands of children need this care, the situation is not only tragic but dangerous.

We recommend that the Federal Government, through the agency of the Children's Bureau, should again assume leadership in a Nation-wide child and maternal health program. Such a program should provide for an extension of maternal and child health services, especially in rural areas. It should include (*a*) education of parents and professional groups in maternal and child care; supervision of the health of expectant mothers, infants, preschool and school children, and children leaving school for work, (*b*) provision for transportation, hospitalization, and convalescent care of crippled children in areas of less than 100,000 population. This program should be developed in the States under the leadership of the State departments of health in cooperation with medical and public welfare agencies and groups concerned with these problems. Federal participation is vital to its success. It should take the form of both grants-in-aid, and of consultative, educational, and promotional work by the Children's Bureau in cooperation with the State health departments.

The appropriation suggested by our Advisory Committee on Security for Children of $7,000,000 per year is large in proportion to the $41,139 now appropriated to the Children's Bureau for child and maternal health work. But its cost is small when it is compared with the expenditures for many purposes having far less direct relation to human welfare. Whether the precise amount suggested should be appropriated is a matter for the determination of other agencies. But we cannot too strongly recommend that the Federal Government again recognize its obligation to participate in a Nation-wide program saving the children from the forces of attrition and decay which the depression turned upon them above all others.

RISKS ARISING OUT OF ILL HEALTH

Illness is one of the major causes of economic insecurity which threatens people of small means in good times as in bad. In normal times from one-third to one-half of all dependency can be traced to the economic effects of illness. The money loss caused by sickness in families with less than $2,500 of income per year has been estimated at a total of $2,400,000,000 per annum, of which $900,000,000 represents wage loss and $1,500,000,000 the expenses of medical care.

The seriousness of this hazard, however, lies less in the total loss involved than in its unequal distribution. Nearly half of all people suffer no illness during a normal year, but 7 percent have three or more illnesses and nearly 15 percent have illnesses that disable them for more than a week. Studies of the actual expenditures for medical care in a large number of urban families with incomes ranging from $1,200 to $2,000 per year, relating to the years 1928 to 1931, disclosed that of each 1,000 families, 218 had medical bills in excess of $100 and 80 in excess of $200; among the 80, 16 had medical costs ranging from $400, to $700, and four, sickness bills amounting to more than one-half of their incomes.

The figures cited explain why many millions of American families live in dread of sickness. Families with small incomes are compelled to sacrifice other essentials of decent living when serious illness strikes some member, go without needed medical care, or depend upon the gratuitous or near gratuitous services of doctors and hospitals. A mere statement of this situation is sufficient to show that it is both unfair to the medical profession and very costly to the public.

PUBLIC-HEALTH SERVICES

As stated by the medical advisory board of this committee, in brief progress report recently filed:

> A logical step in dealing with the risks and losses of sickness is to begin by preventing sickness so far as is possible.

Much progress has been made in this respect, yet the fact remains that despite great advances in medicine and public-health protection, millions of our people are suffering from diseases and thousands die annually from causes that are preventable. The mortality of adults of middle and older ages has not been appreciably diminished. With the changing age composition of our population, the task of health conservation must be broadened to include adults as well as children. Even minimum public-health facilities and services do not now exist in many large areas. Of 3,000 counties, only 528 have full-time health supervision and only 21 percent of the local health departments were rated in 1933 as having developed a personnel and service providing a satisfactory minimum for the population and the existing problems.

Evidence is accumulating that the health of a large proportion of the population is being affected unfavorably by the depression. The rate of disabling sickness in 1933 among families which had suffered the most severe decline in income during the period 1929 to 1932 was 50 percent higher than the rate in families whose incomes were not reduced. For the first time in many decades, the death rate in our large cities is higher this year than it was last year despite the ab-

sence of any serious epidemics. In the face of these evidences of increased need, local appropriations for public health have been decreased on the average by 20 percent since 1930. The average per capita expenditures from tax funds for public health in 77 cities in 1934 were 58 cents as contrasted with 71 cents in 1931. It is not too much to say that in many parts of the country the men and women in public-health work are very discouraged.

In this situation there is great need for a Nation-wide program for the extension of preventive public-health services. As was well stated by the medical advisory board:

> At the present time appropriations for public-health work are insufficient in many communities, whereas a fuller application of modern preventive medicine, made possible by larger public appropriations, would not only relieve such suffering but would also prove an actual financial economy. Federal funds, expended through the several States, in association with their own State and local public-health expenditures, are, in our opinion, necessary to accomplish these purposes and we recommend that substantial grants be made.

In accord with these principles and following the specific suggestions of the advisory committee on public health, we recommend: (1) grants-in-aid to local areas unable to finance public-health programs with State and local resources, to be allocated through State departments of health; (2) direct aid to States in the development of State health services and the training of personnel for State and local health work; (3) additional personnel within the United States Public Health Service for the investigation of disease and sanitary problems which are of interstate or national interest and the detailing of personnel to other Federal bureaus and to States and localities. The advisory committee on public health suggested that in order to carry out these policies the total appropriation to the Public Health Service be increased to $10,000,000 per year, in contrast with $5,000,000—4 cents per capita—now spent by the Federal Government in all its departments for human health services. The advisory committee also reported that the needs of the country are considerably in excess of the additional expenditures suggested but expressed the view that a larger amount cannot be efficiently spent until necessary additional personnel has been trained and further tests of practical procedures have been made through which certain diseases can be more effectively controlled. It is not within our province to say whether the precise amount suggested should be appropriated, but we strongly endorse the recommendation for increased Federal participation in the prevention of ill health.

It has long been recognized that the Federal, State, and local governments all have responsibilities for the protection of all of the population against disease. The Federal Government has recognized its responsibility in this respect in the public-health activities of several of its departments. There also are well-established precedents for Federal aid for State health administration and for local public facilities, and for the loan of technical personnel to States and localities. What we recommend involves no departure from previous practices but an extension of policies that have long been followed and are of proven worth. What is contemplated is a Nation-wide public-health program, financially and technically aided by the Federal Government but supported and administered by the State and local health departments.

HEALTH INSURANCE

The development of more adequate public-health services is the first and the most inexpensive step in furnishing economic security against illness. There remains the problem of enabling self-supporting families of small and moderate means to budget against the loss of wages on account of illness and against the costs of medical services needed by their members. The nature of this problem and the nature of the risks which it involves calls for an application of the insurance principle to replace the variable and uncertain costs for individuals by the fixed and predictable costs for large groups of individuals.

Insurance against the costs of sickness is neither new nor novel. In the United States we have had a long experience with sickness insurance both on a nonprofit and commercial basis. Both forms have been inadequate in respect to the protection they furnish, and the latter—commercial insurance—has in addition been too expensive for people of small means. Voluntary insurance holds no promise of being much more effective in the near future than it has been in the past. Our only form of compulsory insurance has been that which is provided against industrial accidents and occupational diseases under the workmen's compensation laws. In contrast, other countries of the world have had experience with compulsory health or sickness insurance applied to over a hundred million persons and running over a period of more than 50 years. Nearly every large and industrial country of the world except the United States has applied the principle of insurance to the economic risks of illness.

The committee's staff has made an extensive review of insurance against the risks of illness, including the experience which has accumulated in the United States and in other countries of the world. Based upon these studies the staff has prepared a tentative plan of insurance believed adequate for the needs of American citizens with small means and appropriate to existing conditions in the United States. From the very outset, however, our committee and its staff have recognized that the successful operation of any such plan will depend in large measure upon the provision of sound relations between the insured population and the professional practitioners or institutions furnishing medical services under the insurance plan. We have accordingly submitted this tentative plan to our several professional advisory groups organized for this purpose. These advisory groups have requested an extension of time for the further consideration of these tentative proposals, and such an extension has been granted until March 1, 1935. In addition, arrangements have been effected for close cooperative study between the committee's technical staff and the technical experts of the American Medical Association.

Until the results of these further studies are available, we cannot present a specific plan of health insurance. It seems desirable, however, to advise the professions concerned and the general public of the main lines along which the studies are proceeding. These may be indicated by the following broad principles and general observations which appear to be fundamental to the design of a sound plan of health insurance.

1. The fundamental goals of health insurance are: (*a*) The provision of adequate health and medical services to the insured popu-

lation and their families; (*b*) the development of a system whereby people are enabled to budget the costs of wage-loss and of medical costs; (*c*) the assurance of reasonably adequate remuneration to medical practitioners and institutions; (*d*) the development under professional auspices of new incentives for improvement in the quality of medical services.

2. In the administration of the services the medical professions should be accorded responsibility for the control of professional personnel and procedures and for the maintenance and improvement of the quality of service; practitioners should have broad freedom to engage in insurance practice, to accept or reject patients, and to choose the procedure of remuneration for their services; insured persons should have freedom to choose their physicians and institutions; and the insurance plan shall recognize the continuance of the private practice of medicine and of the allied professions.

3. Health insurance should exclude commercial or other intermediary agents between the insured population and the professional agencies which serve them.

4. The insurance benefits must be considered in two broad classes: (*a*) Cash payments in partial replacement of wage loss due to sickness and for maternity cases; and (*b*) health and medical services.

5. The administration of cash payments should be designed along the same general lines as for unemployment insurance and, so far as may be practical, should be linked with the administration of unemployment benefits.

6. The administration of health and medical services should be designed on a State-wide basis, under a Federal law of a permissive character. The administrative provisions should be adapted to agricultural and sparsely settled areas as well as to industrial sections, through the use of alternative procedures in raising the funds and furnishing the services.

7. The costs of cash payments to serve in partial replacement of wage loss are estimated as from 1 to 1½ percent of pay roll.

8. The costs of health and medical services, under health insurance, for the employed population with family earnings up to $3,000 a year, is not primarily a problem of finding new funds, but of budgeting present expenditures so that each family or worker carries an average risk rather than an uncertain risk. The population to be covered is accustomed to expend, on the average, about 4½ percent of its income for medical care.

9. Existing health and medical services provided by public funds for certain diseases or for entire populations should be correlated with the services required under the contributory plan of health insurance.

10. Health and medical services for persons without income, now mainly provided by public funds, could be absorbed into a contributory insurance system through the payment by relief or other public agencies of adjusted contributions for these classes.

11. The role of the Federal Government is conceived to be principally (*a*) to establish minimum standards for health-insurance practice; and (*b*) to provide subsidies, grants, or other financial aids or incentives to States which undertake the development of health-insurance systems which meet the Federal standards.

RESIDUAL RELIEF

Unemployment has become an agglomeration of many problems. In the measures here proposed, we are attempting to segregate and provide for distinguishable groups in practical ways.

One of these large groups is often referred to as the "unemployables." This is a vague term, the exact meaning of which varies with the person making the classification. Employability is a matter of degree; it involves not merely willingness and ability to work but also the capacity to secure and hold a job suited to the individual. Relatively few people regard themselves as unemployables, and, outside of the oldest age groups, the sick, and the widowed and deserted mothers, most adults would, in highly prosperous times, have some employment.

The fact remains that even before the depression there were large numbers of people who worked only intermittently, who might be described as being on the verge of unemployability—many of them practically dependent on private or public charity. These people are now all on relief lists, plus many others who, before the depression were steady workers but who have now been unemployed so long that they are considered substandard from the point of view of employability.

There are also large numbers of young people who have not worked or have worked but little in private employment since they left school, primarily because they came into the industrial group during the years of depression. Then there are the physically handicapped, among whom unemployment has been particularly severe. Included on the relief lists also are an estimated total of 100,000 families in "stranded industrial communities", where they have little likelihood of ever again having steady employment. There are 300,000 impoverished farm families whose entire background is rural and whose best chance of again becoming self-supporting lies on the farm. Policies which we believe well calculated to rehabilitate many of these groups are now being pursued by the Government. These clearly need to be carried through and will require considerable time for fruition. This is especially true of the program for rural rehabilitation and the special work and educational programs for the unemployed young people. There are other serious problems, among them those of populations attached to declining overmanned industries. Only through the active participation of the Federal Government can these problems be solved and the many hundreds of thousands of individuals involved be salvaged.

As for the genuine unemployables, or near unemployables, we believe the sound policy is to return the responsibility for their care and guidance to the States. In making this recommendation we are not unmindful of the fact that the States differ greatly as regards wealth and income. We recognize that it would impose an impossible financial burden on many State and local governments if they were forced to assume the entire present relief costs. That, however, is not what we propose. We suggest that the Federal Government shall assume primary responsibility for providing work for those able and willing to work; also, that it aid the States in giving pensions to the dependent aged and to families without breadwinners. We, likewise, contemplate the continued interest of the Federal Government for a considerable time to come in rural rehabilitation and other special

problems beyond the capacity of any single State. With the Federal Government carrying so much of the burden for pure unemployment, the State and local governments we believe should resume responsibility for relief. The families that have always been partially or wholly dependent on others for support can best be assisted through the tried procedures of social case work, with its individualized treatment.

We are anxious, however, that the people who will continue to need relief shall be given humane and intelligent care. Under the stimulus of Federal grants, the administration of relief has been modernized throughout the country. In this worst depression of all time, human suffering has been alleviated much more adequately than ever before. It is not too much to say that this is the only great depression in which a majority of the people in need have really received relief. It would be tragic if these gains were to be lost.

There is some danger that this may occur. While the standards of relief and administration have been so greatly improved in these last years of stress and strain the old poor laws remain on the statute books of nearly all States. When relief is turned back to the States, it should be administered on a much higher plane than that of the old poor laws.

The States should substitute modernized public assistance laws for the ancient, outmoded poor laws. They should replace uncentralized poor law administrations with unified, efficient State and local public welfare departments such as already exist in some States and for which all States have a nucleus in their State Emergency Relief Administrations. The Federal Government should insist as a condition of any grants-in-aid that standard relief practice shall be used and that the States who receive Federal moneys preserve the gains that have been made in the care and treatment of the "unemployables." Informed public opinion can also do much and we rely upon it to thus safeguard the welfare of these unfortunate human beings and fellow citizens.

ADMINISTRATION

The Federal Government has long had important functions in relation to social welfare. In the depression these activities have grown apace, particularly in connection with relief. For some time the Government has had the major responsibility for the assistance to above one-sixth of the entire population of the country. Hereafter, the Federal Government will still have large and continuing responsibility for many parts of the heretofore undifferentiated relief problem and some of our recommendations contemplate expansion in Federal social welfare activities.

The importance which the social welfare activities of the Federal Government have assumed is such that they should clearly all be administratively coordinated and related. The detailed working out of such coordination does not fall within the scope of this committee, but we deem it important to direct attention to the desirability of early action in this matter.

ACCIDENT COMPENSATION

Industrial accidents were the first of the major hazards of the modern economic system against which safeguards were provided in this country. These are represented on the one hand by safety laws

and orders and the voluntary efforts of employers to reduce accidents, and on the other, by the workmen's accident compensation laws now in force in all but four States.

These safeguards have, on the whole, worked quite beneficially, but we still have far too many industrial accidents, and the accident-compensation laws are sadly lacking in uniformity and many of them are very inadequate. In view of the start we have made, substitution of the continental European form of contributory accident insurance for our noncontributory accident compensation laws, nationalization of accident compensation, or any other fundamental change is unwarranted. There should be no complacency, however, regarding either the progress we have made toward the prevention of industrial accidents or the adequacy of our compensation laws.

In outlining a long-time program for economic security, we make the following recommendations looking toward more adequately meeting the hazard of industrial accidents:

(1) The Department of Labor should further extend its services in promoting uniformity and raising the standards both of the safety laws and the accident-compensation laws of the several States and their administration.

(2) The four States which do not now have accident-compensation laws are urged to enact such laws, and passage of accident-compensation acts for railroad employees and maritime workers is recommended.

EMPLOYMENT SERVICE

Great progress has been made in the last 18 months in the development of a more efficient employment service in this country. The National Reemployment Service, set up to facilitate enrolling labor for public works projects, has been extended into every State. Under the Wagner-Peyser Act, cooperative arrangements have been developed in the majority of the leading industrial States for the joint conduct of employment offices connected with the United States Employment Service. Through insistence upon a merit basis for selection, an efficient personnel is being developed within the employment service.

The Employment Service, however, will have to be still further expanded and improved if the measures for economic security we have suggested are to be put into efficient operation. It is through the employment offices that the unemployment compensation benefits and also the old-age annuities are to be paid. These offices must function as efficient placement agencies if the "willingness to work" test of eligibility for benefits in unemployment compensation is to be made effective. They now function to select the employees on public works projects and should have a similar relation to any expanded public-employment program. Above all the employment offices should strive to become genuine clearing houses for all labor, at which all unemployed workers will be registered and to which employers will naturally turn when seeking employees.

To perform these important functions, a Nation-wide system of employment offices is vital. The nucleus for such a system exists in the United States Employment Service and the National Reemployment Service, which have always been combined "at headquarters" and are now being consolidated in States where both have existed.

No fundamental change in the relation of the Federal and State governments to the employment offices is deemed necessary, but some amendment of the Wagner-Peyser Act is needed to enable the employment offices to perform all the functions our program contemplates. The larger funds required will come from the portion of the Federal pay-roll tax retained for administrative purposes.

Closely related to the development of a more efficient employment service is the Federal regulation of private employment agencies doing an interstate business. The interstate business of such private agencies cannot be regulated by the States, and, for the protection no less of the reputable agencies than of the workers, should be strictly regulated by the Federal Government.

EDUCATIONAL AND REHABILITATION SERVICES

Education, training, and vocational guidance are of major importance in obtaining economic security for the individual and the Nation. And we have at various points in this report made brief references to the importance of vocational guidance and training in the readjustments which are necessary in a coordinated attack on the problem of individual economic security. We here wish to further emphasize that the educational and vocational equipment of individuals is a major factor in their economic security.

At this time it is tragically evident that education and training are not a guarantee against dependency and destitution. Yet there is no reason for losing faith in our democratic system of education; the existing situation merely has brought into bold relief the fact that education to fulfill its purposes must be related much more than it has been to the economic needs of individuals. It has become apparent particularly that education cannot be regarded as completed upon leaving school. It has brought out poignantly the difference between schooling and education. In a day and age of rapidly changing techniques and market demands, many people will find it necessary to make readjustments long after they have first entered industry. Adjustment of our educational content and technique to this situation is a vital need in a long-range program for economic security.

In the years immediately ahead when there is certain to be a large problem in the economic rehabilitation of so many individuals, there is a peculiar need for educational and training programs which will help these worst victims of the depression to regain self-respect and self-support. While men have so much leisure time, those who can profit from further education and training should be afforded an opportunity to make such use of their leisure. Particularly for the young workers and those who have little hope of returning to their old occupations, the need for educational and vocational training and retraining programs is clearly indicated.

Education has been regarded in this country as a responsibility of the State and local governments and should remain so. In the joint attack on economic security which we suggest, Federal participation, however, is most desirable. To a considerable extent the Federal Government is already participating in this endeavor and we believe that it should continue to do so, if possible, on an extended scale.

What to do with regard to the army of unemployed youths continues to be one of the gravest problems of this Nation. Obviously

what the great majority need is a chance to work at some job, a chance to develop skills and techniques. In any program of employment they must be given their fair share of available jobs. For many, however, a training program would be of great benefit. This can be developed satisfactorily only with the assistance of the Federal Government. The local school facilities are not able to take care of their normal tasks, and find it impossible to develop needed vocational training programs at all commensurate with this problem.

At this point, we desire to call special attention to the importance of special programs for the physically handicapped, of whom there are many millions in this country. Since the passage in 1920 of the Federal Vocational Rehabilitation Act, the Government has been assisting the States in a service of individual preparation for and placement in employment of persons vocationally handicapped through industrial or public accident, disease, or congenital causes.

Forty-five States are now participating in this program and since it was launched approximately 68,000 permanently disabled persons have benefited from this service. The work done has shown gratifying annual increases, even in the depression, but is still small in comparison with the need. The desirability of continuing this program and correlating it with existing and contemplated services to workers in the general program of economic security we believe to be most evident.

OTHER MEASURES FOR ECONOMIC SECURITY

We have expressed our views upon many different measures and policies which we deem essential in a program to protect individuals against the many hazards which lead to destitution and dependency, but we have by no means exhausted the subject. We have dealt with the hazards which afflict the largest numbers—unemployment, old age, ill health, premature loss of the family breadwinner, industrial accidents, lack of training—but we have not dealt with other hazards equally serious for some individuals, such as invalidity, nonindustrial accidents, and other afflictions.

Parts of the program we suggest apply to practically the entire population, particularly the grants-in-aid to the noncontributory old-age pensions, the expansion of preventive public-health services, the aid to mothers' pensions, the maternal and child-health services for rural areas, the services for crippled children, the expansion of the Employment Service, and the policy of employment assurance. Two of the major measures suggested—old-age insurance and unemployment compensation—have more limited application. The former will apply to all employed persons, but will not include in its compulsory provisions proprietors, tenants, or the self-employed. Unemployment compensation will have slightly narrower scope, excluding those in small establishments.

Agricultural workers, domestic servants, home workers, and the many self-employed people constitute large groups in the population who have generally received little attention. In these groups are many who are at the very bottom of the economic scale. We believe that more attention will have to be given to these groups than they have received heretofore. We cannot be satisfied that we have a reasonably complete program for economic security unless some degree of protection is given these groups now generally neglected.

While in the short space of a few months we have made a quite comprehensive survey of the entire problem of economic security for the individual, much further thought needs to be given to many aspects of this problem.

Study of the suggested problems not dealt with in this report and still other aspects of a comprehensive economic-security program belong logically among the duties of the Social Insurance Board, if one is established. So do problems of extending the coverage of unemployment compensation and old-age insurance, and the task of correlating the experience gained under these measures to make them better instruments for the accomplishment of the purposes for which they are designed.

CONCLUSION

The program for economic security we suggest follows no single pattern. It is broader than social insurance and does not attempt merely to copy European methods. In placing primary emphasis on employment, rather than unemployment compensation, we differ fundamentally from those who see social insurance as an all-sufficient program for economic security. We recommend wide application of the principles of social insurance, but not without deviation from European models. Where other measures seemed more appropriate to our background or present situation, we have not hesitated to recommend them in preference to the European practices. In doing so we have recommended the measures at this time which seemed best calculated under our American conditions to protect individuals in the years immediately ahead from hazards which plunge them into destitution and dependency. This, we believe, is in accord with the method of attaining the definite goal of the Government—social justice—which was outlined in the message of January 4, 1935. "We seek it through tested liberal traditions, through processes which retain all of the deep essentials of that republican form of government first given to a troubled world by the United States."

We realize that these measures we recommend will not give complete economic security. As outlined in the messages of June 8, 1934, and January 4, 1935, the safeguards to which this report relates represent but 1 of 3 major aspects of economic security for men, women, and children. Nor do we regard this report and our recommendations as exhaustive of the particular aspect which this committee has directed to study—"the major hazards and vicissitudes of life." A complete program of economic security "because of many lost years, will take many future years to fulfill."

The initial steps to bring this program into operation should be taken now. This program will involve considerable cost, but this is small as compared with the enormous cost of insecurity. The measures we suggest should result, in the long run, in material reduction in the cost to society of destitution and dependence and, we believe, will immediately be helpful in allaying those fears which open the door to unsound proposals. The program will promote social and industrial stability and will operate to enlarge and make steady a widely diffused purchasing power upon which depends the high American standard of living and the internal market for our mass production, industry, and agriculture.

APPENDIX

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